EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

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G7 MEETING
Bush makes debt crisis a priority
Page 3

World News

South African white liberals open ranks to all races

Leaders of South Africa's fragmented liberal white opposition agreed over the weekend to form a new, united party open to all race groups and capable of ousting the Conservative Party as the official opposition. Page 2

Sri Lanka attack
Suspected left-wing rebels fired shots and set off smoke bombs during an election rally held by Sri Lankan opposition leader Sirima Bandaranaike in Hingurakgoda, in the north-central province, but she escaped with a bruised leg while 38 others were injured.

Satellite TV launch
Rupert Murdoch, chief executive of News International, ushered in "television's new age" in the UK as four of the planned six channels of the Sky TV service were launched on schedule on the Astra satellite. Page 10

Bus bomb kills 3
A bomb planted in a bus killed three people and injured five hours before a nationalist tribal chieftain became the chief minister of Pakistan's strategic Baluchistan province. Police blamed the blast in the provincial capital Quetta on agents of the Soviet-backed government in neighbouring Afghanistan.

5 dead in S Lebanon
Israeli troops killed five Palestinian guerrillas in southern Lebanon and troops in the occupied Gaza Strip shot dead an Arab teenager and wounded at least 24 other people during demonstrations. Page 2

Warsaw crackdown
Polish police broke up a congress in Warsaw of the Confederation for Independent Poland, a key opposition party set up in 1979. Page 2

Sikhs shot in Punjab
Sikh extremists fighting for a separate state in northern Punjab shot dead two moderate Sikh leaders in an attack outside a school.

Volga rescue plan
A newly-created "Save the Volga" committee will draw up a plan to save the river and the Caspian Sea from ecological disaster.

Bush backs Tower
President George Bush is standing by Mr John Tower, his choice as Secretary of Defence, but persistent reports of womanising and drinking have left uncertain whether the Senate will confirm his nomination. Page 3

Lima guerrilla held
Peru's top urban guerrilla, Victor Polay Campos, 35, known as "comrade Rolando," was being questioned at Lima's central police headquarters and President Alan Garcia described his arrest as a decisive blow against subversion.

Guyana power crisis
Two of Guyana's power plants are out of action and the country will face a national emergency if the third shuts down.

Colombia violence
Ten people were reported killed in weekend violence in Colombia that included a massacre of five peasants by hooded gunmen, the shooting of three guerrillas by the army and the separate murders of a television journalist and a rancher.

Break with tradition
China's first major exhibition of avant-garde art made a shocking debut when police closed it down after a young woman opened fire at a glass sculpture in a "spontaneous art happening."

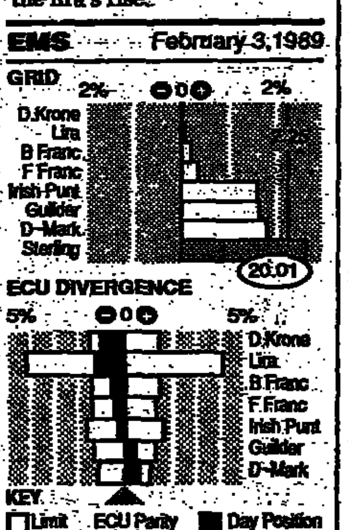
Business Summary

Prices threat puts UK water sale in disarray

UK GOVERNMENT's water privatisation plans were in disarray as ministers faced threats of increases in charges of up to 50 per cent from statutory water companies, and there were warnings of a significant loophole in the privatisation legislation that would make the water authorities much less attractive to investors. Page 10

EUROPEAN Monetary System: Most EMS currencies ended the week on a softer note, reflecting continued strength in the dollar and sterling. Uncertainty before the start of the Group of Seven meeting also played a part in depressing some of the weaker currencies.

The Italian lira was the most notable exception, finishing the week on a stronger note. High interest rates in Italy have provided the lira with a strong base and in January alone the Bank of Italy sold an estimated DM2bn to stem the lira's rise.



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.

EUROPEAN Commission will propose measures this week to abolish tax havens within the EC, Commission President Jacques Delors said. Proposals for a tax on interest and dividends earned in an EC state by residents from other EC countries are also being finalised.

BANCO DE SANTANDER, Spain's most internationally based bank and the owner of nearly 10 per cent of the Royal Bank of Scotland, has posted 50% pre-tax increase in its 1988 group profits. Page 21

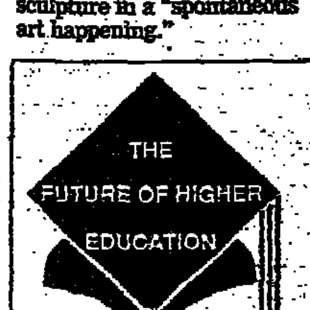
PRESIDENT BUSH will unveil a rescue plan for the US savings and loan industry this week. The private sector is likely to bear the brunt of the cost of resolving the crisis, which could result in a clean-up cost approaching $100bn. Page 3

MICHAEL JULIEN, group chief executive of Storehouse, responded fiercely to criticisms from Mr Asher Edelman. Page 16

CHICAGO Mercantile Exchange's Globex automated transaction system, being developed with Reuters, has advanced another step, with admission of the Sydney Futures Exchange as first foreign partner. Page 21

COMMISSION des Opérations de Bourse (COB), France's stock market regulatory authority, has held up the takeover bid by Cerus, the French arm of Mr Carlo de Benedetti, for Dumenil Leblé, the financial services group. Page 21

THOMSON AND Matra, two of France's leading electronics groups, have decided to withdraw from the micro and personal computer business barely five years after entering with great fanfare this highly competitive sector of the computer industry. Page 21



Universities in Britain
The future of Britain's system of higher education is the subject of intense debate. The FT today begins a series of articles on the issues at stake, with an analysis of the pressures which have prompted calls for radical new solutions; and an editorial comment. Page 14

Paraguay's new regime promises free elections

THE NEW Government in Paraguay yesterday promised presidential and congressional elections within three months as Gen Alfredo Stroessner, the dictator deposed on Friday, flew to exile in Brazil, reports Ivo Dawnay from Asuncion.

The elections decision, approved by the new strongman and provisional President, Gen Andres Rodriguez, was made public by Mr Luiz Maria Argana, the Foreign Minister. He said: "They will be free, democratic and provide equal opportunities for all."

The statement followed a long period of silence since Gen Rodriguez's inauguration on Friday after his First Army Corps forced the surrender of the 76-year-old dictator after 34 years in power.

Officials were understood to have been in long negotiation with several foreign governments over the terms under which they might accept the deposed President. The Brazilian Embassy said finallyyesterday afternoon that Gen Stroessner was being authorised to leave, reportedly for Florianopolis, the capital of the southern state of Santa Caterina, where he is believed to own property.

Gen Rodriguez's decision will almost certainly result in election victory for himself and his ruling Colorado Party. Gen Stroessner succeeded last February in winning nearly 90 per cent of the popular vote, but only after key opposition parties were barred from contesting the election amid widespread claims of fraud.

Early elections will leave little time for long disenfranchised leaders of the various Liberal, Christian Democratic and other opposition groupings to put their case.

After the toppling of Gen Stroessner in clashes which left about 300 dead, opposition figures demanded an immediate return to a multi-party political system.

In his only public speech so far, Gen Rodriguez undertook to re-establish human and democratic rights and to create a society without privileged elites. Since then, however, diplomatic sources have reported that several hundred opponents of his "traditionalist" faction within the Colorado Party have been detained across the country.

Rodriguez discourages the cynics, Page 16

Peking and Moscow agree on plan for Kampuchean peace

By Peter Ellingsen in Peking

CHINA and the Soviet Union have agreed on measures to secure the future of Vietnamese-occupied Kampuchea and on major Soviet troops cuts on the Chinese border as part of a deal for a Sino-Soviet Summit to be held in China from May 15 to May 18.

The official New China News Agency said last night that Peking and Moscow had agreed a nine-point statement on Kampuchea and that the main point of disagreement remained the shape of a future Kampuchean administration after the total withdrawal of Vietnam's troops, expected later this year.

Both sides agreed however on a need for an "effective control mechanism" to exercise strict supervision of a Vietnamese troop withdrawal, an end to foreign military aid, the maintenance of peace in Kampuchea and conduct of free elections. The Chinese have always insisted that this should be a UN supervisory force. The Soviets and the Hanoi Government have resisted and it is not clear whether they have changed their view or whether an alternative compromise has been found.

The summit was agreed after Mr Deng Xiaoping, the senior Chinese leader, met Mr Eduard Shevardnadze, Soviet Foreign Minister, in Shanghai at the weekend.

On Kampuchea, China and the Soviet Union took note of Vietnam's decision to end its occupation of Kampuchea by the end of September, 1989, "at the latest", the statement said.

"With the withdrawal of Vietnamese troops from Kampuchea, all countries concerned should gradually reduce and eventually totally stop their military aid to any of the parties in Kampuchea," it said in an apparent reference to China's support for Khmer Rouge guerrillas and Soviet support for Vietnam.

Vietnam invaded Kampuchea in late 1978 to oust the Chinese-backed Khmer Rouge whose four-year rule killed 1m Kampucheans.

Detailing the main point of disagreement, the statement said China stood for the formation of a "provisional coalition government" headed by resistance leader Prince Norodom Sihanouk and to include representatives of the three guerrilla resistance factions and the Hanoi-backed government in Phnom Penh.

Moscow, however, proposed a "provisional organ under the charge of Sihanouk and with quadripartite representation". The body would not be subordinate to any party in Kampuchea.

The crucial difference seemed to be that the present government of Premier Hun Sen in Phnom Penh would dissolve itself under China's proposal but remain in power according to Moscow's plan.

At the weekend Mr Shevardnadze stressed renewed relations between the Communist superpowers would not harm any third country, but "create a new world order". Both nations envisaged a "high level" of co-operation. Moscow intended to cut the 50-plus divisions along the Chinese border, particularly in the eastern and southern parts, where 200,000 and 60,000 soldiers respectively would be withdrawn.

Three-quarters of the Soviet forces in Mongolia would leave, and Moscow would restructure its border forces for a "more defensive role".

Editorial comment, Page 14

Afghan peace bid
EDUARD Shevardnadze, the Soviet Foreign Minister, has extended his visit to Islamabad in order to hold talks today with Afghan resistance leaders. The surprise talks represent a final attempt to reach a settlement in Afghanistan and avoid a prolonged civil war. Page 16; When the Red Army leaves the war stays, Page 15

North Sea assets auction under way in Houston

By Steven Butler in London

THE BIGGEST and one of the most hurried auctions of North Sea oil and gas assets to take place is under way in Houston, where Texas Eastern, the US gas pipeline owner and oil exploration company, is selling assets as part of its defence against a $2.6bn hostile takeover bid by Coastal, another gas transmission company.

The Texas Eastern assets are expected to draw bids ranging from $1.3bn to $1.8bn and have attracted the interest of a wide range of oil companies. This is not only because of the size of the asset portfolio, which includes 510m barrels of oil and oil equivalent in the ground, but because of what industry specialists say is an attractive balance of assets between producing fields, prospects for development and exploration area.

The assets are mainly in the UK and Norway, with additional reserves in Indonesia, Denmark, the Netherlands, and Alaska.

A potential added attraction is that they can be acquired without the costs and risks associated with a hostile takeover.

When consummated, the deal is almost certain to rank as the second biggest sale of North Sea assets. The biggest was the £2.5bn ($4.37bn) British Petroleum hostile takeover of Britoil last year.

The decision to bail out suddenly from the oil exploration and production business came about two weeks ago after the board of Texas Eastern concluded it was unlikely to be able to continue to operate as an independent company, and that it would attempt to sell the exploration side of business at full value, rather than allow Coastal to follow the same path and thereby finance its takeover by selling an under-valued asset.

Texas Eastern is being advised by First Boston investment bank of the US, and by oil specialists from James Capel, the London stockbrokers.

Texas Eastern last week was given a modest reprieve in the US courts, where Coastal accepted that its tender offer of $42 a share would not go ahead until March 15, when Texas Eastern's controversial "poison pill" defence is now set to expire.

Coastal had obtained an injunction against the defensive measure, which called for the issue of new shares to shareholders in the event of a predator accumulating a large stake. Coastal's tender offer was set to expire on February 13.

Texas Eastern, however, offered voluntarily to scrap the "poison pill" measure on March 15, and argued the extra time was needed to secure full value for shareholders. A court hearing on the legality of the measure is set for March 7.

Meanwhile, data rooms have been opened in Stavanger, the Norwegian oil centre, London, and Houston where oil companies have been queuing up to take a look at what is on offer.

British Gas has been widely mentioned as a possible bidder because of its recent aggressive pursuit of North Sea assets. Other potential bidders include Texas Eastern's exploration partners, which are Enterprise Oil, Amerada Hess, Mobil and Amoco.

Other companies believed to be interested are Repsol, the Spanish state oil company, Petrofina, Elf Aquitaine and the London & Scottish Marine Oil Company.

A number of other smaller parcels of assets are also on the market, including those of International Thomson and Trafalgar House Oil and Gas.

Scramble for jewels of the deep, Page 17

G7 fails to dissuade dollar speculation

By Peter Norman in Washington

THE US dollar is expected to advance on the world's currency markets after last week's meeting of the Group of Seven leading industrial nations in Washington produced nothing to dissuade speculators from buying the currency.

Although Mr Nicholas Brady, the US Treasury Secretary, said after Friday's meeting that there were no changes on the G7 commitment to co-operate on exchange rate policy, the impact of his remarks was lessened by the high priority that some G7 members said they accorded to fighting inflation.

The dollar has also gained strength from continued evidence of robust growth in the US economy, which feeds expectations that the Federal Reserve will have to tighten US monetary policy further.

A sharp rise in US employment reported on Friday boosted the dollar, causing the Federal Reserve and central banks from many European countries to sell it on currency markets in a bid to halt its rise.

Mr Geoffrey Dennis, chief international economist of James Capel in New York, said the absence of any specific guidance to the currency markets following the G7 meeting should result in a very strong dollar.

The foreign exchange market believes that some G7 countries are not too concerned about the dollar's recent strength. The Bank of Japan has been a notable absentee from recent bouts of concerted central bank dollar selling.

The strong anti-inflationary stance adopted by some G7 countries has also caused some in the markets to question how far currency stability is now the dominant goal of economic policy co-ordination among the US, Japan, West Germany, Britain, France, Italy and Canada.

Mr Nigel Lawson, the UK Chancellor, said on Friday that there is a "full understanding" in the group that countries "should and must tighten monetary policy" in response to inflationary pressures.

However, concern about inflation means that West Germany is expected to be at the forefront of further G7 action to curb the dollar's rise. West Germany's inflation rate is expected to accelerate to around 2.5 per cent this year as a result of higher indirect taxes. Unless checked, the strong dollar, raising the cost of imported goods, will push German inflation still higher.

Of all the G7 officials, Mr Karl-Otto Pöhl, the Bundesbank President, is the most concerned about the dollar's rise. However, he has been unable to win the backing of the other G7 participants for his view that exchange rate stability should be judged in real, inflation-adjusted terms, rather than by market rates.

G7 reports, Page 3

Legal row over alleged evasion of EC anti-dumping levies

By William Dawkins in Brussels

AN extraordinary legal row has broken out over a suspected attempt to circumvent European Community anti-dumping levies on freight carried by Hyundai Merchant Marine, the South Korean shipping line, between Europe and Australia.

It has resulted in an acrimonious battle between Sofrana, a French shipping line operating in the South Pacific, the European Commission and customs authorities in three EC countries. The dispute looks set to lead to a showdown in the European Court of Justice.

Mr Gaspard Ravel, president of Sofrana, has appealed fruitlessly to the Commission to end the row, triggered by Hyundai's decision two weeks ago to hand its beleaguered Europe-Australia service to the French line.

Brussels imposed a 26 per cent levy last October on any container traffic leaving Europe for Australia, carried "directly or indirectly" by Hyundai, the first time the EC has charged anti-dumping duties on any service industry. The South Korean line last month withdrew from the route and announced it was to appeal against the ruling.

However, the Commission and customs officials in Germany, Britain and the Netherlands grew suspicious when they found that Sofrana was using five of Hyundai's ships, having allegedly painted over their old names and substituted its own.

Moreover, the vessels were using the same agents and sailing at the same times and frequencies from the same ports as did Hyundai. Commission officials claim this establishes a clear commercial link between the two businesses and could make Sofrana liable to anti-dumping duties, an argument strenuously denied by the French company.

Customs authorities in Hamburg refused to believe that Sofrana was the real operator of a former Hyundai container ship which docked there last week. They accordingly demanded the payment of a DM100,000 ($53,270) anti-dumping duty before allowing it to leave, a move which Sofrana successfully overturned in a local court. The Hamburg customs authorities are now appealing against the court decision.

However, Sofrana was less fortunate when the vessel later docked at Felixstowe in England. It was forced to pay £31,000 ($54,250)into a frozen account, the fate of which will be decided when lawyers have sorted out whether the duty is really due. The vessel then sailed on the Dutch port of Rotterdam, where it was also fined. The next Sofrana vessel on the route is due to arrive in Europe in three weeks.

Mr Ravel has said he will sue

Continued on Page 16

CONTENTS

THE MONDAY INTERVIEW

Frans Andriessen, new EC External Relations Commissioner, may lack the flamboyance of his predecessor Willy de Clercq but he has a will of iron and unique experience of Brussels culture. Page 38

IMF Nigeria credit 'paves way for Paris Club talks'

By Tony Hawkins in Lagos

LAST week's formal approval by the International Monetary Fund of an SDR475m (£353m) standby credit for Nigeria has been welcomed by Western diplomats, who say that it paves the way for a meeting of the Paris Club group of official creditors to be held later this month.

The Nigerians will seek to reschedule $4.7bn (£2.6bn) of debt-service payments due in 1989.

The Fund's approval of Nigeria's application follows the World Bank's decision to lend Nigeria $500m in the form of a Trade and Investment Policy Loan, which is expected to attract an additional $250m in co-financing.

Britain has already pledged $100m to Nigeria and this, with $200m offered last year by Japan and loans from the African Development Bank, should close the country's external payments gap, which is expected to amount to $1.1bn in 1989.

However, Nigeria will need to clean the slate with some Paris Club members before a new rescheduling agreement can be worked out.

At the end of last year, four bilateral rescheduling agreements which had been reached in 1986 had still not been finalised, and it is estimated that arrears totalling $380m in respect of previously rescheduled Paris Club commitments covering the period from mid-1987 to the end of 1988 remain to be paid.

Some Western creditors have been irritated by Nigeria's failure to ensure equal treatment. Thus, while Britain has received 75 per cent of the amount due, France has obtained only 46 per cent, and three smaller trading partners have so far had little or nothing.

Accordingly, Lagos will have to mend some Western fences before it can hope to regain access to official credits.

Details of the IMF agreement have not been released, but bankers say that Lagos will have to meet stringent credit ceilings in respect of both money supply growth and government borrowing from the banks.

But perhaps the toughest condition is believed to be a requirement that Nigeria leaves the exchange rate to float freely in the foreign exchange market.

Since the new unified foreign exchange market came into operation four weeks ago, the Nigerian authorities have repeatedly established a rate against the US dollar below even the lowest quotation submitted by the 67 banks that comprise the interbank market.

The downward pressure on the naira, which has depreciated by more than 80 per cent in the past three years, is evident from the rate being quoted in the parallel market – estimated last week at 10 naira to the US dollar, which compares with an official rate of only 7.2 to the dollar.

Poll suggests coalition hurt by Berlin upset

By David Goodhart in Bonn

THE UPSET for the West German centre-right coalition parties in the Berlin election has raised the first serious doubts about the coalition's ability to win a third successive Federal election at the end of 1990.

A weekend poll gave the Christian Democrats/Christian Social Union only 39 per cent of the vote compared with 42 per cent for the centre-left Social Democrats; the liberal Free Democrats (FDP) registered 10 per cent and the Greens 8 per cent. A separate poll gave the far-right Republican Party, which came from nowhere to win 7.5 per cent of the vote in Berlin, 11.5 per cent support nationally.

If the Republicans – now armed with an extra Dm500,000 ($269,000) as a result of the Berlin vote – are able to capitalise on the disillusionment of enough right-wing voters they could split the right-wing vote in both Federal and state elections in much the same way as the Green Party has split the centre-left vote. As no party, yet, contemplates alliance with the Republicans, that makes an SPD-FDP coalition or even an SPD-Green coalition more possible.

Despite this new fluidity most political analysts still expect the present coalition to scrape back in 1990.

They point out that this is a classic mid-term low point for a Government, that the coalition's image has recently taken an especially severe battering, and that Berlin is different.

However Mr Lothar Späth, vice-chairman of the CDU, warned at the weekend that Berlin was "a last warning" and that the strategy of the coalition – CDU/CSU plus Free Democrats – requires overhaul.

Any attempt to replace the recent shift towards the centre with a shift rightwards to stem the flow of support to the Republicans will, however, meet resistance from the FDP.

Although the SPD should be the immediate beneficiary from greater polarisation it could suffer at national level from an unsuccessful SPD-Green Government in Berlin, and if the FDP commits itself to the CDU/CSU in 1990 the spectre of Red-Green "chaos" in Bonn might frighten off potential support.

Bulgarian leaders gingerly eye perestroika

Judy Dempsey reports on a markedly ambivalent attitude to economic reform

SINCE a nod of the head means "no" and a shake of the head means "yes" in Bulgaria, first-time visitors need some time to adjust to the new cultural signs.

Similarly, the Bulgarian authorities, led by 77-year-old Mr Todor Zhivkov, need more time to adapt to the changes taking place in the Soviet Union. And judging from the recent meeting of the party's central committee and the National Assembly, it seems they remain less than certain about the content of their own economic reforms, let alone the pace of them.

The main purpose of December's central committee plenum was to discuss precisely the economy. Mr Zhivkov, Eastern Europe's longest serving leader, rarely regarded as a man in a hurry, dropped a minor bombshell.

He said it was time to move from a "top-down" revolution to a "bottom-up" revolution throughout the country. By this he meant that restructuring would not be complete without what he termed a "complete reform of the political system."

His speech, peppered with old-fashioned Zhivkovian language and spiced with new Gorbachevisms, did not, however, go into any detail as to how the party should reform itself.

With a closely-knit politburo, several of whose members fought with Mr Zhivkov in a partisan unit in Sofia during the second world war, it seems unlikely that they would be the ones to push through the "bottom-up" revolution.

In sharp contrast, both Mr Andrey Lukanov, the Minister of Foreign Economic Relations, and Mr Petar Mladenov, the foreign minister, made very radical speeches. And in the past few weeks, the authorities have unveiled an economic reform programme which goes some way towards relaxing central control over state enterprises. In addition, individuals will now be allowed to set up privately run enterprises provided they do not employ more than 10 people.

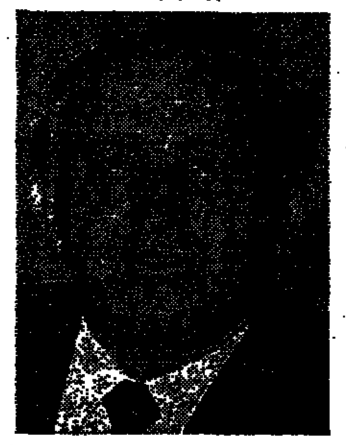
Mr Lukanov who has been a candidate member of the politburo for several years and has still not been promoted to full membership, described the socialist countries as "self-isolationist."

Mr Lukanov, who has been instrumental in trying to attract foreign investment from the West and in making joint ventures more attractive, also criticised the bureaucracy which, he said, was "hindering the development of Bulgaria's foreign economic relations." He called for a "single socialist market" as a key to restructuring Comecon, the socialist-bloc's trading organisation.

He even went further by calling for a price reform, and a "real exchange rate of the Bulgarian leva to convertible currency in all international payments of the country."

However much the Bulgarian authorities support the Soviet calls for greater openness – a key ingredient for loosening the party's grip on information – in practice, Mr Zhivkov continues to run shy of actually implementing such social and political changes.

A number of recent trends seems to indicate this unwillingness. Last month, for example, Mr Stefan Prodev, editor of



Lukanov (left): radical speech. Zhivkov: old-fashioned language

Narodna Kultura, the cultural weekly, was sacked from his post. The official media explained it in terms of his old age. However, it is well known that Mr Prodev threw his weight behind a more open press.

Mr Stojan Mihailov, the former (and pragmatic) central committee secretary for ideology has been dropped altogether from the central committee. Like Mr Prodev, he took calls for glasnost seriously. But what is interesting about his fate is that his dismissal last July from the central committee secretariat aroused considerable support from intellectual circles.

During the National Assembly session, Mr Dimiter Stoyanov, Interior Minister for the past 15 years, was promoted to the politburo while his ministry was filled by Mr Georgi Tanev, the former minister of transport.

The point about this reshuffle is that it comes at a time when the authorities are dragging their feet on liberalising the passport system. For the past year, the National Assembly has been planning to discuss a bill on allowing freer travel as well as the availability of passports.

According to Bulgarian journalists, the reasons for postponing any discussion of the bill, is because of a serious division in the party. The younger generation supports freer travel. Members of the older generation believe it would cost too much money since the Bulgarian leva is not convertible so would-be travellers require hard-currency allowances.

Above all, given Bulgaria's deep-seated suspicions of the West, they believe it would lead to a brain-drain. Young Bulgarian journalists point out, however, that this has not happened in either Hungary or Poland. "If we have a decent human rights situation in our country, people would return. Freer travel is synonymous with the internal situation," they said.

Indeed on the human rights front, there is much lip-servicing to Moscow. An official human rights committee was recently set up, shortly after a senior Soviet delegation visited Sofia.

At the same time, however, the authorities have expelled Mr Eduard Ganev, a human rights activist. Mr Ilya Minev, the 70-year-old chairman of the Independent Association of Human Rights is virtually under house arrest while Mr Tzeko Tzekov, another member of the group, has been told to leave the country.

These trends seem to confirm considerable hesitation by the Bulgarian leadership to match words with deeds, a situation which could be applied to the economy as well. And it appears that the explanation behind such hesitation rests with the leadership itself.

Mr Zhivkov is reluctant to loosen up the Bulgarian communist party. A freer press would, after all, entail a thorough discussion on why reforms are needed in the first place in Bulgaria.

Mr Zhivkov, as he reminded his comrades at the recent central committee plenum, said Bulgaria had embarked on the road to reform back in 1956. That was 32 years ago. And restless, younger Bulgarian officials and intellectuals feel it is time to assess those years.

But without the green light from Mr Zhivkov, not Moscow, there seems little chance that the economic reforms will truly bite. The time for such reassessments have not yet come.

Moderate to represent Chilean party

By Barbara Durr in Santiago

CHILE'S Christian Democratic Party chose Mr Patricio Aylwin yesterday as its candidate for the presidential election on December 14.

Mr Aylwin, a political moderate who is president of his party, is widely expected to become the unity candidate of the 17-member opposition Coalition for Democracy, who is expected to be named next month. This would substantially increasing his chances of winning.

The presidential poll will be the first since 1970. Gen Augusto Pinochet is scheduled to hand over power in March 1990.

The Christian Democrats had been divided over their choice of candidate after irregularities in a November internal election for about 300 delegates to last weekend's national party meeting. Mr Aylwin overcame challenges from Mr Gabriel Valdes, a former Foreign Minister, and Mr Eduardo Frei, son of a former president, representing the left-leaning wing. Mr Aylwin also beat off two weaker consensus candidates, Mr Andres Zaldivar and Mr Sergio Molina.

Mr Aylwin expressed confidence that he would have solid support among the coalition parties. As leader of the largest opposition party, he is chief of the coalition.

Mexico oil union pledges reform

By Richard Johns in Mexico City

REFORMS have been pledged by Mr Sebastian Guzman Cabrera, the new leader of the Mexican oil workers' union, of the system whereby it can demand from Petroleos Mexicanos, the state oil corporation, contracts for its own companies, on its own terms.

Mr Guzman stressed the allegiance of the union to the Government when he was sworn in late last week as Secretary-General of the Union of Oil Workers in succession to Mr Salvador Barragan Camacho.

Arrested on January 10, Mr Barragan has been transferred from hospital, where he was being treated for heart trouble, to a penitentiary. Also there is the former overlord of the union, Mr Joaquin Hernandez Galicia, known as La Quina, who awaits trial on charges of arms trafficking, illegal possession of arms and homicide.

South Africa opposition to form new party

LEADERS of South Africa's fragmented "liberal" white opposition agreed over the weekend to form a new, united party open to all race groups and capable of ousting the Conservative Party as the official opposition, Anthony Robinson reports from Johannesburg.

Among its supporters is Dr Frederik Van Zyl Slabbert, former leader of the Progressive Federal Party (PFP) who walked out of parliament three years ago calling it "a grotesque farce".

One of the aims of the party will be to build bridges with the extra-parliamentary opposition, including blacks who have no vote in the present parliamentary system.

The new "Democratic Party" will formally come into being after a founding congress to be held in Johannesburg on April 8.

The core of the new party is the PFP which lost its status as the official opposition in the right-wing surge at the May 1987 general elections which gave the Conservative Party 23 seats to 19 for the PFP.

Its other components are the Independent Party, essentially a vehicle for the political ambitions of Dr Denis Worrall, Pretoria's former ambassador to London; the National Democratic Movement headed by Mr Wynand Malan, a dissident Afrikaner, and a so-called "fourth element" made up of dissident Afrikaner academics and intellectuals.

Apart from the PFP, only the NDM has representation in the current parliament. Two of the NDM's three members are MPs who quit the PFP after the May elections.

According to Dr Worrall's calculations, the combined voting strength of the new party amounts to around 24 per cent of the white electorate.

But whether the new party is capable of realising such a share of the vote is still very much an open question, given the differences of opinion brushed aside in the interests of unity.

Sudan's finance minister quits

DR El-Tigani El-Tayeb Ibrahim, Sudan's minister of state for finance, architect of Sudan's short-term economic recovery programme and the chief proponent of economic reform in the country's coalition government, has handed in his resignation to Prime Minister Sadiq El Mahdi, Julian Ozanne reports from Khartoum.

Dr Ibrahim, a former World Bank official, decided to quit after a new coalition cabinet was announced last week, in which several ministers without economic experience were appointed to key economic ministries and the power of the fundamentalist National Islamic Front was entrenched.

Since he was appointed to his post last year, Dr Ibrahim, a strong advocate of structural adjustment, has been fighting a single-handed battle to get the Government to take difficult decisions on pricing and subsidies, taxation, cuts in government expenditure, foreign exchange reform and measures to manage Sudan's $12bn (£6.6bn) external debt.

An International Monetary Fund team is due to arrive later this month to review the effects of the stabilisation programme, and to prepare, with the Finance Ministry, a policy framework for a medium- and long-term structural adjustment programme to be considered by the Government before this year's budget in June.

This has now been jeopardised by Dr Ibrahim's resignation and by several recent measures which have knocked the stabilisation off course.

Sanctions meeting opens in Harare

FOREIGN ministers from eight Commonwealth nations gathered in Harare yesterday for a conference to propose tougher economic sanctions against white-ruled South Africa, AP reports from Harare.

The ministers also planned to discuss new ways for the 49-member Commonwealth to bolster black-led states threatened by South Africa, organisers said.

The meeting formally opens today.

Yugoslav chief's reform pledge

By Judy Dempsey in Vienna

MR Stipe Suvar, Yugoslavia's communist party leader, said at the weekend that the party would not interfere with any reforms carried out by the incoming government.

He added that the country urgently required a dose of foreign investments and political stability to push through any successful economic measures.

"The party should . . . stop imposing itself on other social organisations" including the Government, he warned.

A new government, headed by Mr Ante Markovic, the prime minister designate, takes over next month.

Algeria unveils party reforms

By Francis Ghilès

ALGERIAN leaders yesterday unveiled reforms expected to open the way to a multi-party system and end the country's all-out commitment to socialism.

The reforms were promised after a week of rioting last October left hundreds dead in protests at the austerity induced by a sharp fall in oil prices and against the corruption of the Front de Libération Nationale, the single party. They allow the creation of independent political associations, remove all references to socialism in the constitution and allow workers in the state companies to strike. Until now only those working in the less important private sector have had this right.

These changes, which Algerians will be asked to approve in a referendum on February 23, are contained in draft constitutional amendments which, if approved, will in effect end the monopoly on power enjoyed by the FLN since the country gained independence from France in 1962. In marked contrast with previous constitutions, the only reference to the FLN would be in the preamble, where the party's "historic role" is recognised.

Article 40 of the new constitution says "the right to create associations of a political nature is recognised" so long as they are not directed against state interests. Only organisations linked to the FLN had been allowed. While this article does not explicitly allow the creation of opposition parties it will allow for a plurality of views.

It must also be put in the context of the reforms endorsed last year which allow non-FLN candidates to stand at elections and makes the Government responsible to the National Assembly. The new constitution continues the tradition of electing the president by universal suffrage but does not link his office with secretary general of the FLN.

The two posts were traditionally in the same hands until last November's FLN party congress.

SHIPPING REPORT

Slide in tanker freight rates gathers pace

THE DECLINE in freight rates in the tanker markets gathered speed last week as production cuts agreed by the Organisation of Petroleum-Exporting Countries began to bite, Kevin Brown, Transport Correspondent, reports.

Opec's January output is thought to have been about 20.5m barrels a day – down by about 1m b/d on that of the previous month. Brokers said a further cut of 1m b/d was likely this month, putting the target production level of 18.5m b/d within reach.

Owners said the rates being paid for Very Large Crude Carriers (VLCCs) were hardly enough to cover day-to-day running costs.

Trading conditions of the past 18 months have improved the financial position of many owners, and brokers said rates would have to fall much further before a significant amount of tonnage were withdrawn from the market.

Instead, owners will probably concentrate on fixing short voyages, to be in a position to accept longer fixtures if rates rise again.

In the Gulf, rates for VLCC and Ultra Large Crude Carrier (ULCC) tonnage fell below New Worldscale 35 towards the end of the week.

Solidarity's crucial round table

Christopher Bobinski analyses talks that start in Poland today

SOME 50 people will sit down today, at a round table in a Warsaw palace once owned by the aristocratic Radziwill family, to inaugurate talks on a non-aggression pact between Poland's communist authorities and the Solidarity opposition.

Just over seven years after the imposition of martial law, the meeting carries the prospect not only of the return of Solidarity to public life but of a significant re-ordering of the country's political system. It also marks an attempt to reach a national consensus on how to tackle the problem of a national economy burdened by foreign debt.

The round table has been in prospect since last August when the promise of talks was seen by the authorities as a way to deal with a spate of strikes in the southern mines of Jastrzebie, and in the Baltic ports of Gdansk and Szczecin. The strikes duly ended but prospects for the round table faded.

It became clear that Solidarity would never allow itself to be drawn into the official political system, as the authorities wanted, without a guarantee of the movement's return to the shop floor, which the authorities wanted to avoid.

Since then, pressure by the Catholic Church and the growing feeling that the economic situation threatened the return of mass industrial unrest has produced a grudging majority at the top of the party in favour of Solidarity's legalisation. In exchange, the authorities, which planned to hold parliamentary elections in May or June, want Mr Lech Walesa, the Solidarity leader, to agree to a common electoral programme with the communist and other established parties, as well as provide a certain number of candidates for seats in the 460-member parliament. The deal would also include an agreement and support for economic reform policies.

Gen Wojciech Jaruzelski, the head of state, has had his problems getting the formula through the party central committee. Rank-and-files members remain unconvinced of its advantages.

Mr Walesa also has a hard task. A new generation of Solidarity supporters has grown up since 1981 and some are beginning to question vociferously the wisdom of talking to the authorities. Besides, the movement no longer has a monopoly of opposition. It is the largest group but, abiding by its trade union formulation, is open to challenge from much smaller political groups of all sizes and ideological hues, which will be looking closely at the small print on any political accord Mr Walesa signs.

POLISH police broke up a Congress in Warsaw on Saturday of the Confederation for an Independent Poland, a key opposition party set up in 1979 and claiming 1,600 active members, writes Christopher Bobinski in Warsaw.

The party's immediate goal is free elections. It is led by Mr Leszek Moczulski, who was jailed from 1980 to 1985.

The police action came on the eve of talks between the authorities and the Solidarity trade union, which may leave the latter's radical wing unreconciled and ready to throw its support behind groups such as the confederation.

The opening session today – with set speeches by Gen Czeslaw Kiszczak, Interior Minister, who heads the official team, as well as by Mr Lech Walesa and others – will be for show.

Later in the week, three working groups – on unions, economic policy and (probably the most controversial) on political issues – will get down to work.

On union matters, Solidarity has gained much of what it set out to achieve. Official pledges have been offered that Solidarity will be legal again before the election. The timetable for the movement's restoration, as well as the safeguards the authorities want against any repeat of the confrontations of 1981, is negotiable.

Controversy in this area is more likely to come from the official union (OPZZ), 5m-strong and also at the round table. It fears Solidarity will poach some of its support and is furious that the authorities shifted their ground so rapidly on Solidarity. In recent weeks, it is the OPZZ that has been attacking the Government and backing strikes, while Mr Walesa has been appealing for calm. Also behind the scenes, the OPZZ has been talking of setting up a separate political party, the Workers' Labour Party (RPP).

The authorities are planning to field a top team on the economy and the talks here promise to be relatively smooth. Solidarity intends to push for further cuts in arms spending to help finance reform. In the short term, though, as inflation rises and supply of consumer goods falls short of demand, while the $39bn foreign debt restrains imports, agreement will be easier for both sides than the achievement of viable solutions.

The greatest problem can be expected to confront the working group on political reform. Mr Walesa neither wants nor can afford to agree with the authorities a common electoral list of candidates. Also, he dislikes the idea of the opposition seats in Parliament being filled by nominees rather than by members openly elected.

The furthest Solidarity has gone so far is to say it does not want the election to be "confrontational", nor would it call for a boycott. For now, though, the authorities are saying that the same rules must apply to official and opposition candidates. Both sides face the conundrum of how to create an electoral system that will give the communist party and its allies the 60-65 per cent of the seats which Solidarity is willing to see them retain, while leaving the principle and practice of free choice to the opposition.

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OVERSEAS NEWS

Peter Riddell and Peter Norman at the G7 meeting in Washington

US administration gives Latin American debt key priority

THE Group of Seven meeting last week revealed an increased will among the governments of the leading industrialised countries to do more to ease Latin America's foreign debt, coupled to a growing realisation that complex details have to be resolved before any solution.

As Mr Nigel Lawson, the Chancellor, said afterwards, there is a "consensus in principle" that ways must be found to reduce the debt burden by market-oriented means. However, the talks among the US, Japan, West Germany, Britain, France, Italy and Canada found no readily acceptable way to strengthen the existing debt strategy, drawn up in 1985 by Mr James Baker, then US Treasury Secretary.

The Baker plan to encourage private and official financial flows on a case-by-case basis to debtor countries which undertake reforms so as to make their economies more efficient has failed to dispel slow growth and a decline in Latin American living standards.

The Bush administration has made the problem of Latin America's $470bn (£270bn) foreign debt a key priority. It fears that fledgling democracies south of the US could collapse if the slide in living conditions were to continue. A return of Latin America to sound economic growth could also improve US trade prospects and help cut the US balance of payments deficit on the current account, now at an annual rate of $130bn.

The French and Japanese governments have each offered a plan to encourage debt reduction through the creation of funds to guarantee interest payments by the debtor countries on long-term securities that they would issue at a discount in place of bank debt. Neither has the support of a majority of the G7 governments.

Japan's plan is considered too complex. The French one has met opposition because it suggests an issue of special drawing rights, the reserve asset of the International Monetary Fund, to create the guarantee fund.

G7 officials will be considering various options before the spring meeting of the IMF's policy-making Interim Committee in two months. European monetary officials say the US Treasury has already toyed with the idea that the World Bank should lend money to debtor nations to enable them to buy back their debt at a discount on the secondary market.

No official confirmation of such an idea was forthcoming after the talks last week, but it highlights many problems raised by debt reduction schemes. It would involve the World Bank in massive commitments for relatively small returns.

It is unclear how such a scheme would be compatible with the existing G7 principle that debt reduction should not transfer risk from private creditors to official lenders. It could also damage the World Bank's credit rating.

For now, debt reduction is most likely to be encouraged by changes in tax and regulatory regimes in the industrial countries, designed to encourage banks to swap their debt for other assets at a discount.

Officials stress that debt reduction is only part of the answer to the problem. It cannot solve the vexed issue of capital flight. IMF figures suggest this might have sent to havens abroad sums equivalent to about half the foreign debt of the capital-importing developing countries.

Debt reduction also does not answer what one senior international official described as "the real question": finding the best mechanism to induce better economic policies in the debtor countries themselves.

US thrifts rescue to hit private sector

By Lionel Barber

PRESIDENT George Bush will unveil this week a rescue plan for the US savings and loan industry, known as thrifts.

The private sector is likely to bear the brunt of the cost of solving the crisis, which could approach $100bn (£57bn).

Mr Bush is due to outline his budget proposals to Congress on Thursday and intends to keep his "no new taxes" pledge in tackling the crisis.

Among a series of options under consideration is an increase in premiums paid by savings and loans institutions, and commercial banks, for government deposit insurance. The plan is expected to include increased government supervision of the industry, possibly by giving new responsibilities to the Federal Deposit Insurance Corporation.

Mr Preston Martin, a former vice-chairman of the Federal Reserve, said yesterday an insurance premium increase was "probable".

The higher fees for deposit insurance could raise about $7bn — enough to meet the interest on bonds the Government intends to issue so as to raise funds for a government buy-out of insolvent bodies.

About 350 insolvent savings and loans entities are contributing to industry-wide losses which could be as high as $1bn

Dole: average taxpayer safe

a month, and need to be liquidated or sold soon.

Senator Robert Dole of Kansas, Republican minority leader in the Senate, said: "It's clear that most of the funds needed to straighten out the problems will come from the savings and loans and banks, not the average taxpayer."

The S&Ls have protested that higher insurance premiums will put them at a competitive disadvantage against the uninsured money market funds. The administration and Congress — sensitive to mismanagement and fraud in the industry — are unsympathetic.

Bush stands by Tower as ethics embarrassments grow

By Lionel Barber in Washington

PRESIDENT George Bush is standing by Mr John Tower, his choice as Secretary of Defence, but persistent reports of womanising and drinking have left uncertain whether the Senate will confirm the nomination.

As the FBI continued its checks of Mr Tower's personal life — renewing an investigation supposed to have been completed some weeks ago — it became clear that the Tower affair has turned into a big embarrassment for Mr Bush.

The new president's efforts to set higher ethical standards than those of the Reagan administration suffered another blow at the weekend.

The Washington Post reported that Mr Boyden Gray, the White House counsel and chief ethics adviser, acted as the paid chairman of a $500m (£285m) family communications company during the eight Reagan years that he served Mr Bush as vice-presidential counsel.

White House policy at the time prohibited involvement in outside business interests, though the rules were less clear about the office of the vice-president, where Mr Gray served. He has earned more than $400,000 from the company over the last five years.

The extensive news reports

Tower: checks renewed

about Mr Tower and Mr Gray are the clearest indications to date that, after a brief honeymoon, the US press has reverted to its traditional adversarial role towards the administration.

The Bush team has encouraged this through a series of shoddy background checks on Cabinet nominees. Mr Jack Kemp, former Congressman from New York and lately approved as Housing Secretary, had to return several thousand dollars of lecture fees after it was revealed that he had exceed House rules and federal law limits on outside income.

Dr Louis Sullivan, whose nomination as Health Secretary is in trouble because of his equivocal views on abortion, has been forced to drop his request to take about $300,000 in defered payments from his former employer, the Moorehouse School of Medicine in Atlanta. He has yet to appear for his Senate confirmation hearings.

Mr Tower's problems are more serious. The FBI is checking several allegations, including a specific report concerning his period in Geneva as a US negotiator with the Soviet Union in talks to reduce long-range nuclear weapons.

The renewed FBI investigation has delayed the Senate Armed Services Committee's vote on the Tower nomination. Further postponement could damage him irreparably. Today, the respected trade journal Defence News calls on the Texan former senator to withdraw, saying in an editorial: "The record of Mr Tower's professional life raises substantive doubt that he can perform with effectiveness at a time when defence priorities and the Defence Department are undergoing periods of vital, but delicate, change."

Credibility of Bush budget deficit strategy on trial

EVERYONE was very polite about the US budget deficit during the discussions on Thursday and Friday. There was, of course, no point in rocking the boat before an address to Congress next Thursday night by President George Bush.

In practice, what this means is that the Bush administration's approach is on trial. The watchword is "credibility", as Mr Alan Greenspan, the chairman of the Federal Reserve, has recently emphasised a number of times.

Echoing the private views of his opposite numbers in Japan and Europe, he has stressed the urgency of further action in relation to the low level of US savings.

To Mr Greenspan, the key is not necessarily the exact numbers for fiscal year 1990, which will start in October, but the credibility of the spending projections up to the mid-1990s. "Multi-year is what it's all about."

Credibility has two aspects: first, the economic assumptions used; second, whether the proposed spending programmes are likely to be agreed by Congress. This has been illustrated in the contrast between the estimated budget deficit, as put forward by the outgoing Reagan administration a month ago, and the figures used by the Congressional Budget Office.

The former projected a deficit of $92.5bn (£53bn) for fiscal 1990, having taken into account the savings on expenditure proposed in the Reagan budget of January 9.

The Office has estimated a deficit of $120bn — a crucial difference given that the target for fiscal 1990 is $100bn under the Gramm-Rudman-Hollings law.

The contrast is explained by the more optimistic economic assumptions, notably about interest rates, used by the present administration. Many of the spending cuts proposed by the Reagan team have also been regarded as implausible because they represent programmes which Congress has staunchly defended.

The Bush administration has tentatively embraced its predecessor's economic assumptions as a starting point, though the signs are that, in the revised budget next Thursday, some of the less plausible expenditure savings will be removed.

Mr Bush told businessmen on Friday that it was important that what was sent to Congress should be credible, so that world markets will understand that this is for real. And, if they do understand it's for real (which doesn't have to happen overnight), then I think we're going to see a very salutary effect on interest rates. So we want to keep the deficit heading downward."

The president knows not only that financial markets will reach a verdict if the package fails the credibility test, but that he cannot rely on continued rapid economic growth to bail him out.

Mr Greenspan believes the administration is too optimistic on long-term growth potential and has said that the Fed's policy will err on the restrictive side because of concern over inflation.

So the two-day meeting of the Fed's Open Market Committee that will start tomorrow is unlikely to see any reason to loosen the monetary squeeze. It is now up to President Bush.

Different approaches shown in G7 meeting

THE WORLD will probably have to wait until the next G7 meeting in two months before it can judge whether the gathering in Washington last week advanced the cause of economic policy co-ordination.

By then, the US budget plans will have been published and exposed to scrutiny by Congress. If they are credible, the G7 will be able to try moving ahead with co-ordination of fiscal as well as monetary policy.

The G7 session last week lived up to expectations and produced no initiatives and no communiqué. The absence of the latter was to signify that G7 meetings are part of an "ongoing process" of co-ordination rather than signs of crisis. The ministers and central bank governors of the US, Japan, West Germany, Britain, France, Italy and Canada accordingly agreed to maintain economic policy co-ordination with the aim to stabilise exchange rates.

After the meeting, differences of approach and attitude among the participants became apparent. Some G7 countries, including Britain, now put much greater stress on combating inflation than on maintaining stable exchange rates.

Mr Nigel Lawson, the Chancellor, who in autumn 1987 produced a "managed floating" plan for still greater G7 currency stability, insisted that getting inflation down and keeping it low was now "absolutely central" to economic policy. While the G7 countries had achieved more exchange rate stability in the past two years than in the previous five, countries "should and must" tighten monetary policy if they felt it necessary because of inflationary pressures, he said.

Such an attitude was very close to those of Mr Alan Greenspan, chairman of the US Federal Reserve Board, and Mr Karl Otto Pöhl, president of the Bundesbank.

Mr Pierre Bérégovoy of France, however, took a less stringent view. He said there was no reason for general concern about inflation. In a swipe at West Germany, where the Bundesbank has raised interest rates twice in recent weeks, he said there was no real inflationary danger when a country had an inflation rate that goes "from 1.4 per cent to 1.6 or 1.7 per cent".

Although the G7 meeting was billed as low-key, most of the ministers and central bankers spent at least 11 hours discussing trends in the world economy and the debt problem. They initiated annual surveillance of each other's economies.

The meeting will have given the US, Britain and Canada, all of which are preparing budgets, the opportunity to consider the international economic environment in their fiscal plans. However, the next G7 meeting two months hence could be of considerably greater significance. Late on Friday, at least one G7 minister was heard to complain that the session last week had not been essential.

Israeli troops kill five Palestinian guerrillas

By Andrew Whitley in Jerusalem

ISRAELI troops killed five Palestinian guerrillas in southern Lebanon on Saturday night, an army spokesman said yesterday.

The guerrillas, members of two Syrian-backed factions, were said to have been on their way to attack targets in Israel. The clash took place amid continuing tension in the region between UN peace-keeping troops and Israeli forces, after the expulsion from their homes of some 75 Lebanese villagers by Israel's ally, the South Lebanon Army.

After incidents last week involving his soldiers, Colonel J.E. Karlsen, commander of the Norwegian battalion, was reported to have described the Israeli behaviour in Lebanon as being "exactly like that of the Nazis." This remark drew a strong protest from the Israeli army to the UN commander.

The dead guerrillas were identified by a Beirut-based spokesman of the radical Popular Front for the Liberation of Palestine as members of the PFLP and of the Syrian-based Palestine Liberation Front.

● Egypt and Israel are today due to resume talks over the Red Sea beach resort of Taba after the near-collapse of negotiations last week, writes Tony Walker in Cairo.

Following US-mediation, two committees are to meet in Cairo and Taba to discuss issues holding up a settlement, namely compensation for an Israeli hotel on Taba and access for Israelis to the beach resort.

Egypt and Israel, in a document initialled by the US, agreed a February 26 deadline for Egyptian and Israeli officials to convene in Taba to review progress.

Israel undertook to withdraw from the 250-acre beach once issues of compensation and access have been resolved.

Egypt has objected to paying what it regards as an exorbitant figure and has said Israelis will need passports to gain access to Taba.

China wary of Snake Year

By Peter Ellingsen

HAVING just survived the political turmoil of the Year of the Dragon, Zhao Ziyang, leader of China's Communist Party, is to see in the Chinese New Year door-knocking in Guangdong, China's richest region and a model for the rapid development he wants the nation to follow.

Zhao is indulging in *bai nian* (paying New Year calls), a tradition for celebrating the most important festival in the Chinese calendar.

This is a welcome respite for the battered leader, who saw his plans for price deregulation derailed last year when inflation reached 30 per cent, and many in the top echelon lost their nerve for reform. True to prediction, Dragon Year was a period of upheaval when China suffered an earthquake and Zhao and the party came close to losing control.

The Year of the Snake, which will begin tomorrow, is by tradition a time for reflection, planning and searching for answers. The calendar points to Snake Year 1989 as not for the faint-hearted. The snake is the strongest negative force in the 12-creature Chinese cycle and is rarely tranquil. The serpent is meant to provide faith for one's convictions and force action.

It does not seem a year for fence-sitters. Even so, despite the urging of the paramount chief, Deng Xiaoping, the party has been equivocating about whether and when to bite the bullet and overhaul its bureaucratic society.

An investigation by the Economic Daily has shown that a state government, Sichuan, spend more money – 2bn yuan ($300m) from 1985 through 1987 – on buying cars than on agriculture, its main industry, which got less than yuan 1. Little wonder that output of grain last year fell by 2.3 per cent and thatforeign debt leapt by nearly $6bn (£3.4bn) to about $40bn – a handicap Peking can ill afford.

Farmers in southern China have been urged to realise the commercial potential of snakes – last year serpent-breeding for medicine, meat and handbags produced a profit of 10m yuan – but most Chinese would rather call the Year of the Snake "the Year of the Small Dragon". This is not true, but is more likely to bring good luck.

W Australia poll in balance

By Chris Sherwell in Sydney

VOTERS in Western Australia may have to wait a few days to learn which political party has won a majority in the state election held on Saturday.

The state's ruling Labor Party suffered a heavy swing against it, estimated at up to 10 per cent and enough to lose it power. But the protest vote went heavily to minority parties rather than to the opposition Liberal and National Party coalition.

The outcome therefore hangs on both the preferences of these ballots and the postal votes in some eight key marginal constituencies. With counting and distribution of these likely to take some time, both sides are maintaining that victory is within their grasp.

Mr Peter Dowding, the Labor Premier, said his party could look forward with "reasonable confidence" to a majority of "one to five" seats in the 57-seat lower house.

But Mr Barry MacKinnon, the Western Australia opposition leader, refused to concede defeat, and said he was still confident the Liberals and Nationals would form the next government.

The swing in Western Australia repeats a trend seen in other state elections over the past year, with Labor losing power in New South Wales and narrowly back in in Victoria. Queensland, South Australian and national elections are expected this year.

Romania to buy Boeing 767s in barter deal

By Norma Cohen

ROMANIA has agreed in principle to purchase three long-range 767 aircraft from Boeing in a complex barter agreement valued at about $200m (£114m).

The eastern European state has vowed to pay off all its foreign debts by the end of this year and to keep new borrowing to a minimum. It is turning to more barter deals to buy what it wants from Western suppliers.

Under the terms of the deal, which have not yet been formally agreed, Romania will sell for cash its own domestically-produced freight ships and tankers, ranging in size from 5,000 to 200,000 tonnes. The country will also sell Romanian motors, garments, furniture and glassware. A barter agent has been appointed to handle the sales and turn the cash over to Boeing.

The US Commerce Department, in approving Romania's purchase, has set some restrictions on the sale. Bucharest will not be allowed to buy the flight simulators used for pilot training, and servicing of the most sophisticated technology will have to take place in a Western country.

Metro for Ankara

Ankara, the Turkish capital, was expected to initial today a "build-operate-transfer" contract valued at $427m with a Canadian-led consortium for the first 8.7-mile stage of a metro transport system for the city, Jim Bodgener writes from Ankara. The markets will be approached for about $125m in commercial credits for the deal – a test of international banking faith in the BOT model.

The consortium is led by Canada's Urban Transport Development and includes local contractors Gama and Guris. UK companies, led by Hawker Siddeley, will have subcontracts ranging from propulsion to track-laying.

Waste stalemate

Negotiators from 59 industrialised and developing countries have failed to reach an agreement on curbing exports of toxic waste, after a week of talks in Luxembourg, John Hunt reports.

Now there will have to be more negotiations and it is hoped that an accord will be signed at a meeting in Basle, Switzerland, next month.

Oil use rises

The industrialised world stepped up its consumption of oil by 5 per cent in the last three months of 1988, compared with the last quarter of 1987, according to the Paris-based International Energy Agency, Max Wilkinson writes.

The IEA's monthly oil market report this weekend says the fastest growth was in the Pacific region, where consumption rose 9 per cent, with an increase of 5 per cent in the US and 3 per cent in Europe.

Israeli plea to EC

Israel, concerned about the impact of the abolition of tariff barriers on manufactured goods on January 1, has asked the European Community to exempt three sensitive sectors – textiles, carpets and leather goods – *from the provisions* of their bilateral trade agreement, Andrew Whitley reports from Jerusalem.

The request to phase out protection of these items over the next six years was submitted by Mr Ariel Sharon, Industry and Trade Minister, to Mr Juan Matutes, Mediterranean Affairs Commissioner. EC approval looks doubtful.

Pakistan loans

The efforts of Pakistan's new Government to promote private *investment have been* given a fillip by a loan of $148m from the World Bank and a $2m credit from the International Development Association, Christina Lamb writes from Islamabad.

The project will channel funds to four commercial banks and three state-owned development banks, which will re-lend the money for investments in manufacturing.

US-Japan chip case ruling likely today

By Louise Kehoe in San Francisco

A DECISION is expected today in a legal battle that could have a significant influence on US-Japanese trade relations in the conflictive area of semiconductors.

A US federal judge in California is expected to issue his ruling on Intel Corporation's suit that alleges copyright infringement by NEC of Japan. Intel is the leading US microprocessor manufacturer, while NEC is the largest semiconductor manufacturer in the world.

The dispute, which dates back to 1984, has become a symbol of the widely-held belief in the US that Japanese semiconductor companies have used unfair and, in some cases, illegal practices to beat their US competitors.

If Intel prevails, then the case is certain to be used as "proof" of common wisdom. If the US company loses, however, it will be a bitter blow for all US chip-makers.

Intel's suit charges that NEC violated copyrights on software embedded in Intel's popular 8086 microprocessor – a chip widely used in personal computers. NEC has denied the charges, claiming it created independently its own version of the microprocessor software.

Details of the case are complex, and it has taken a tortuous route through the courts. At one point, the original judge hearing the case had to step down when it was discovered that he owned $80 of Intel stock through an investment pool.

The outcome of the case will help to determine, industry analysts believe, whether Intel can retain its dominant position in the market for microprocessors used to power personal computers.

If NEC wins the case, analysts suggest, that will mean Intel's chips can be legally "cloned", leaving the company vulnerable to imitators and seriously undermining its strategy.

Microprocessors represent one of the few segments of the semiconductor market in which US companies have retained a lead over Japanese competitors.

If Intel loses the case, the US may be in danger of losing its lead in microprocessors. Such a prospect would raise intense political concern in Washington.

EC merger controls take shape

William Dawkins sees how Brussels uses its new anti-trust powers

Some people in Brussels express *ironic puzzlement* as to why the European Commission is trying so hard to persuade recalcitrant member states to give it an EC-wide merger control regulation.

It can hardly be worth the bother, they argue, when companies are already flocking to the Brussels authorities by the score to get their cross-frontier merger and takeover plans vetted under existing EC competition rules. Such mergers are becoming increasingly common in preparation for the single European market after 1992. The outlines of the Commission's new merger control powers are thus already taking shape, independently of member states' political will.

Practically all of Europe's big cross-border mergers over the past year have sought the blessing of Brussels or attracted its scrutiny, including the abortive consortium bid for Irish Distillers, British Airways' takeover of British Caledonian, Carnaud and Metal Box Packaging and most the GEC/Siemens bid for Plessey. The Commission's competition directorate – DG IV – made 25 formal decisions on takeovers last year, up from 15 in 1987, and gave provisional written clearance to another 36.

Even British officials, the most sceptical of all on this matter, accept that agreement on some kind of merger control regulation is likely this year. This will give the Commission the automatic right to vet in advance all larger mergers, except those with purely national implications, and at least double its anti-trust workload. Meanwhile, DG IV has the right to look at mergers under Articles 85 and 86 of the Treaty of Rome, outlawing anti-competitive agreements and abuses of dominant positions.

The procedures DG IV uses to apply those powers are criticised as vague and chaotic by some lawyers representing companies in recent cases. The present system does not absolutely guarantee the right for the Commission to influence takeovers before they happen, as opposed to the messy business of "trying to unscramble eggs" afterwards, as one official puts it. Senior DG IV officials reckon this means Brussels cannot legally influence hostile bids where there is a single bidder, or takeovers where no dominant position is created. In practice, DG IV exerts its influence wherever it can.

Officials maintain there is a clear logic behind their approach. It is to give informal clearance wherever possible, *but to use a complex system of* institutional and legal checks when Brussels wishes to impose big changes, block a deal, or make a special exemption from competition rules. "We are in the situation of having to develop a consistent philosophy case by case, so we have to step very carefully," says a senior official.

The informal procedure would usually take about a month, starting at a meeting with one of the 80 anti-trust professionals in DG IV, at which the Commission would give *an outline of the information* it needs. At present, officials admit: "Very often we do not know what kind of information we need until we see what we have got." That would change under the regulation, which would introduce a standard questionnaire on such matters as market share, main customers, suppliers and possibly a strategy outline.

Under the present system, one of the department's three *sectoral heads might negotiate* small alterations with the bidder later, before sending the case, with a recommendation, to the director-general, Dr Manfred Caspari, an urbane 64-year-old West German economist. Sir Leon Brittan, the competition Commissioner, would then decide on Dr Caspari's recommendation – and the matter could end there.

However, the bidder might also want a so-called "comfort letter" to confirm provisional clearance. In that case, the company would have formally to notify the terms of the deal to DG IV, which would get the letter cleared at a full weekly meeting of the *Commission*. "We usually expect to dispose of four times as many cases informally as we would by formal procedure," says Sir Leon's adviser on merger control.

A formal procedure could also start if DG IV and the companies fail to agree, or if it gets a formal complaint against the bid, such as the one lodged by Plessey against GEC and Siemens. This process would take four months, if Brussels sticks to the timetable currently proposed in the regulation. Here the case would be taken over by a "rapporteur," typically a DG IV sectoral expert in his or her mid-30s, able to speak the bidder's language.

The first step would be for the rapporteur to run an initial check with senior competition policy and economic experts in DG IV as to which competition rules and which markets apply. If they thought the takeover did contravene EC competition rules, Brussels would send a confidential "statement *of objection*" to the bidder explaining why. This letter stops the Commission from introducing new arguments later.

If Brussels wants to clear a merger, even though it is anti-competitive, it must publish this intention in the EC's Official Journal and ask other interested people – such as *customers, suppliers or other* potential bidders – to send in their views. This would be under a section of Article 85 that allows otherwise anti-competitive bids which contribute to general technical or economic progress.

The rapporteur then invites the company and its lawyers to Brussels to put their side of the *story. He might also call on* other parts of the Commission for technical information.

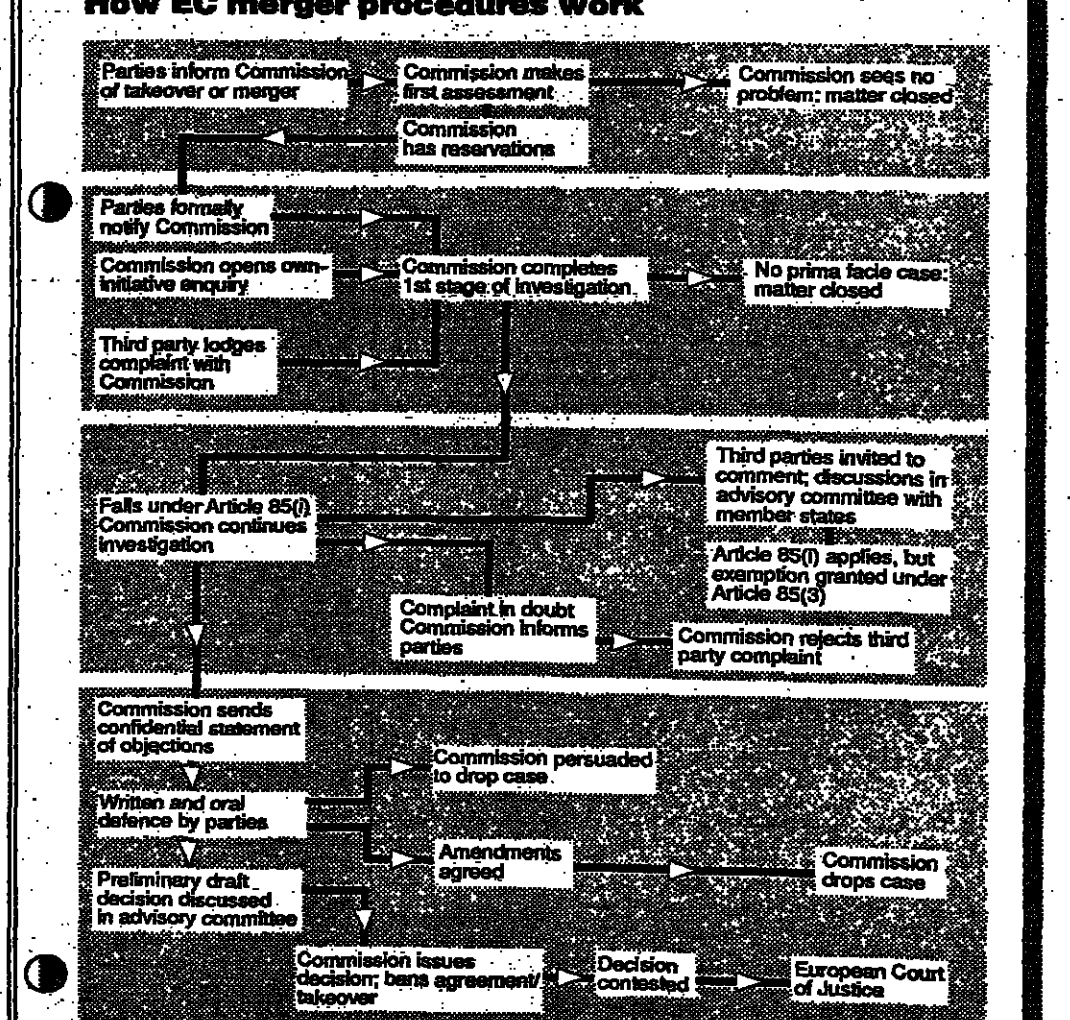
This procedure would be checked by a kind of official umpire, the so-called hearing officer, who is by tradition a particularly experienced figure – and the only DG IV official apart from Dr Caspari to get direct access to Sir Leon. His job is to make sure the rapporteur sticks to the rules and that the bidders have a fair chance to lay out their defence. He can, and sometimes does, complain to the competition Commissioner about shortcomings in DG IV's procedures.

The case documents then have to be translated into the EC's nine official languages so that *they can be considered* by a committee of national anti-trust officials – the advisory committee on restrictive practices and dominant positions – which passes its views back to DG IV. At this point, the rapporteur would have gathered enough evidence and advice to write a recommendation.

This complex process, far more convoluted than *that* of any national anti-trust authority, is organised with the help of a computer data base which continuously logs the progress of the 400 or so cases to attract (mostly informal) investigation each year. Even with this help, DG IV is near the limit of its capacity.

Senior Commission officials are not sure exactly how many extra staff they will need to cope with the increase from the 62 formal and provisional decisions of last year to the 150 or so expected to come *under* the new regulation. Mr Jacques Delors, the Commission President, is said to be making expansion of DG IV a top priority for the next year. The biggest unknown is what member states will finally agree should be the joint turnover threshold, now proposed at Ecu 2bn (£1.3bn), above which mergers must be notified to Brussels.

Officials are keen to set up five-year secondments from national anti-trust authorities so as improve co-ordination with member states, which now become formally involved only via the advisory committee. The DG IV experts are scornful of some governments' fears that they will be unable to keep up. "We would not have proposed the regulation if we could not have stuck to it," says one. Time will tell.



WORLD ECONOMIC INDICATORS

UNEMPLOYMENT

	Dec '88	Nov.'88	Oct.'88	Dec '87
USA 000's	6,554	6,683	6,518	6,978
%	5.3	5.4	5.3	5.8
UK 000's	2,002	2,067	2,119	2,569
%	7.2	7.6	7.5	8.4
W. Germany 000's	2,157	2,204	2,227	2,227
%	8.3	8.5	8.6	9.0
Netherlands 000's	689.9	676.6	678.2	697.0
%	13.8	13.9	13.9	14.3
Belgium 000's	378.8	373.5	377.1	422.2
%	10.7	10.7	10.9	11.8
	Nov.'88	Oct.'88	Sept'88	Nov.'87
France 000's	2,617	2,654	2,633	2,670
%	11.2	11.3	11.2	11.4
Italy 000's	3,566	3,570	3,588	3,325
%	16.6	16.7	16.6	14.3
Japan 000's	1,410	1,460	1,530	1,590
%	2.4	2.4	2.5	2.7

Source: (except US, UK, Japan) Eurostat

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UK NEWS

Provident Life banned from publishing survey

By Eric Short, Pensions Correspondent

PROVIDENT Life Association, the UK member of the Winterthur Swiss Insurance Group, has been banned by Lautro (Life Assurance and Unit Trust Regulatory Organisation) from publishing the results of a survey it carried out.

The survey, entitled Competitor Analysis, aimed to provide independent intermediaries marketing personal pensions with an objective method of comparison between the charges made by life companies on their pension products.

The survey would have highlighted the effects of these charging structures on the investment returns provided by these contracts.

However, Lautro, the self-regulating organisation within the financial services regulatory framework responsible for life company marketing, has ruled that such a survey would contravene its rules.

These rules laid down a defined basis on which life companies show projected benefits on life and pension contracts using standard assumptions that do not relate to the particular company's own experience. Thus, each life company produces the same illustrative figures for a particular contract that does not relate the company's own investment experience, mortality experience or charging structure.

Mr Malcolm Reid, chief executive of Lautro, said the underlying objective of these rules was to prevent life companies using projections as a competitive tool.

He would not comment on Provident Life's circumstances. He said it was Lautro's policy not to comment on the particular circumstances of a member company. If those circumstances could be a disciplinary matter.

Provident Life is holding a press briefing tomorrow when the company "hopes to give a detailed insight into the Competitor Analysis – its aims, methods and findings."

Provident Life offers a commission-free Gold Pensions contract to independent intermediaries, such as accountants, actuaries and solicitors, who are remunerated by fees from their clients instead of by commission. Competitor Analysis was intended to complement the technical information on this product.

Mr Reid would not comment on what action would be taken if Provident Life deliberately or accidentally disclosed information which could be regarded as breaking Lautro's ban.

He admitted that if the proposals of disclosure of charges from the Securities and Investments Board, the main regulatory body for the financial services industry, were implemented, the information for such surveys would be publicly available.

Indeed, Mr David Walker, the SIB chairman, in announcing the proposals, hoped that the media would use the information to publish "league tables" of life company charges.

However, Mr Reid said such proposals would not be operative before 1990 and, meanwhile, the Lautro rulebook applied.

Mr Reid also admitted that five magazines, including Money Management, had permission from Lautro to produce illustration surveys for unit-linked products where the life companies produced figures on standard investment assumptions, but used their own charging structure – presumably the format for Provident Life's Competitor Analysis.

However, Mr Reid said the journals were aimed at a specialised readership, and were being provided with information that could be produced by a "diligent researcher."

Taurus is a sign of troubled times to come

Clive Wolman on the Stock Exchange plan for settling and registering share deals

THE STOCK Exchange's scheme to overhaul its antiquated system for settling bargains and registering shares by dispensing with share certificates is likely to be blocked by opposition, mainly from banks and registrars.

The opposition emerged in strength four months ago, 2½ years after development of the scheme was renewed in earnest. The scheme is called Taurus – the Transfer and Automated Registration of Uncertified Stock.

The concerns were that:

● Set-up costs might run to more than £40m.

● An unwieldy dual system would operate for a lengthy transitional period.

● The SE bureaucracy and systems staff would have excessive power at the expense of the jobs and profitability of traditional share registrars and custodians – owned mostly by banks.

A steering committee was set up. At this end of this month it is expected to recommend to the SE Council abandonment of the initial, centralised Taurus scheme by which all listed companies' share registers would be held electronically.

Initially Taurus's introduction was scheduled for early this year. The plans were first formulated in 1982, shelved in the three years of intensive systems development in preliminaries to the Big Bang reforms of 1986 and then dusted down again as the unsettled-bargains backlog mounted in 1986-87.

The backlog highlighted the tortuous, labour-intensive paper-chasing operations involved in settling every SE transaction – and the danger that the costs and maladministration would undermine London's position as a centre for international share trading.

The plans pushed forward by the SE's systems teams envisaged phasing out share certificates as proof of ownership. Instead, shareholders would be registered electronically through Taurus so that when a tranche was bought by one investor from another the transfer could be registered by keying in data through a computer terminal.

The plan allowed for registrars of individual companies to continue functioning, although they would merely have to input tapes sent to them regularly from the SE as a way of recording changes in the share register.

A further long-term threat to the registrars was that their responsibility for administering dividend payments, rights issues and communicating with shareholders would gradually be seen as unnecessary and could also be assigned to Taurus managers.

Patrick Mitford Slade: *reporting at end of month*

Such a system of centralised, fully-electronic securities administration, under quasi-public control, has been implemented in a few smaller countries such as Denmark and Norway. Setting one up in the UK would be a lengthy process.

It would also create upheaval and upset entrenched interests. The database alone, covering every listed company with its tens of thousands and sometimes millions of shareholders, would be of unprecedented size.

Further, legislative changes would be needed which would raise political issues: which institution would be empowered to run such a centralised monopoly service? Many have asked if that power should be given to the Stock Exchange, the role of which in the post-Big Bang era has oscillated between a stockbrokers' trade association, a public agency, a utility and a dynamic, competitive, service business.

The difficulty of adopting more of an incremental approach is that the costs of running two systems in parallel, for example certificates for private investors and electronic registration for institutions, are likely to be prohibitive. Even allowing share certificates to be held by individuals until there is a sale and ownership is transferred would mean retaining a dual system for several years.

Two other options are being reviewed by the 13-man steering committee chaired by Mr Patrick Mitford Slade, of Cazenove, and comprising representatives of securities firms, registrars, institutional investors, listed companies and clearing banks.

One option, which best serves the interests of the registrars and custodians, would be to give them a continuing role in running a decentralised system of electronic share registers, albeit co-ordinated and controlled by the SE.

The most limited option would be to extend the role of Sepon, the SE's central nominee service which already serves as an electronic share register for stock held by market-makers.

Its facilities could be offered to other securities firms, as a few of them, led by Barclayshare, have already been demanding, and also to institutional investors and to the clearing banks and other firms running large nominee services for private clients.

The last option's attraction is that it could be implemented fairly swiftly. Its drawback is that it would accelerate the process by which an increasing proportion of shares is held through nominees. The current proportion is about 40 per cent. This would make the identity of the beneficial shareholders of a public company more difficult to unravel.

Such considerations mean that the committee is most likely to recommend a hybrid solution, based primarily on a compromise between the second and third options, with a view to implementing the reforms in under 18 months.

What is certain is that the ambitions of the SE's systems staff, to introduce a centralised electronic system for transferring and registering the shares in all UK quoted companies, have been dashed, at least for this century.

Student loan plans 'should be scrapped'

By David Thomas, Education Correspondent

THE GOVERNMENT should scrap its proposals for student loans and instead introduce a system giving parents tax relief on bank loans to cover student maintenance, according to Mr Christopher Johnson, chief economic adviser to Lloyds Bank.

Mr Johnson, writing in the bank's economic bulletin, is highly critical of the proposals for subsidised commercial loans to cover part of a student's maintenance from October 1990.

He argues that the system would discourage people from low income families from entering higher education, would tempt students to get deep into debt, and would increase public spending in the short term. Because of the administration involved, the proposals are unattractive to banks.

Mr Johnson's paper reflects the irritation felt by the high street banks at the Department of Education and Science's failure to consult them fully before its scheme was published.

"The DES evidently assumed that the banks were so keen to gain student customers that they would subsidise the operating costs," Mr Johnson writes. His alternative scheme would have three main elements:

● An 18 per cent increase in student grant to return it to its real level in 1978-79.

Arguing that "it is time to recognise that students have had a poor deal," Mr Johnson calculates that there has been a 20 per cent real decline in student grants plus parental contributions since 1962, in spite of a two-thirds increase in national wealth.

● Banks should be able to lend parents their statutory contribution to student maintenance on commercial terms but with tax relief on interest. Mr Johnson argues that many parents are already funding their children's education by extending their mortgage, on which tax relief applies.

● A fall-back government loan facility, much smaller than presently proposed, for students whose parents are unable or unwilling to pay their statutory contribution.

Mr Johnson also opposes plans to withdraw social security benefits from students, on the ground that housing benefit helps deal with the wide variations in student lodging expenses. He calculates that his proposals would cost less than the Government's plans initially, though more in the medium term.

Editorial Comment, Page 12

Rover recruits extra 100 workers at Swindon plant

By John Griffiths

ROVER GROUP is recruiting a further 100 workers at its main car body pressings plant at Swindon, Wiltshire, to help fulfil a contract under which Rover will supply Renault, the French manufacturer, with panels for the 21, its main volume saloon.

The contract is worth about £5m a year, relatively small by motor industry standards. However, according to Rover Group, "opportunities for further business are being explored by both parties."

The contract is to provide Renault with 20,000 front and rear door inner panels a week, with deliveries to Renault's Sandouville plant, where the 21 is produced, starting in about two weeks.

Initially, Renault itself is to supply the 190 tonnes of steel a week needed for the contract. However, the intention is to switch to a UK steel supplier as soon as possible.

The contract provides further minor underpinning to the viability of Rover's Stratton St Margaret plant on Swindon's outskirts, where 3,600 people are employed.

The facility meets the majority of Rover's needs for pressings, although body panels for the Montego, Maestro and Mini are still being made at Rover's pressings plant at Llanelli, South Wales.

However, Rover is negotiating to sell the Llanelli plant to Camford Engineering, the Midlands-based industrial group. It plans to source all of its pressings requirements – including those for the R8 saloon range to be launched in a few months – from Swindon.

These activities are expected to compensate for a decision by Jaguar to change the sourcing of its bodies from Rover to a joint venture company which Jaguar has established with GKN.

Rowntree trust to probe effects of takeovers

By David Waller

THE Joseph Rowntree Memorial Trust is funding a research project into the effects of takeovers on local communities.

From 1904 until last summer, the charitable trust was the biggest shareholder in Rowntree, the York-based confectionery company which was taken over by Nestlé, the Swiss foods group, after a protracted bid battle.

According to Sir Donald Barron, the trust's chairman and a former chairman of Midland Bank, the aim of the project will be to look at:

● The effects on the regions of the removal of the ultimate decision-taking powers of large organisations.

● How communities are affected by the departure of well qualified "community" orientated staff.

● How the change in control of large international companies such as Rowntree affects the public and national interest.

● Whether the current legislative framework for mergers policy is satisfactory.

● The effects and mechanics of "dawn raids" – stock market operations whereby a predator can swiftly acquire a large holding in its target company.

The trust was endowed with shares by Joseph Rowntree, the philanthropic 19th century proprietor of the company. It supports independent research into housing and social policy issues.

UK NEWS

Details expected on plans for VAT on construction

By Paul Cheeseright and Andrew Taylor

THE GOVERNMENT is expected this week to publish details of plans to introduce 15 per cent value added tax on new private commercial, private industrial and public sector construction other than housing.

The three sectors accounted for nearly £15bn of output last year.

The introduction, from April 1, of VAT on new construction — VAT is already levied on many types of repair and maintenance and improvement work — follows a ruling last June by the European Court that Britain was in breach of European Community legislation by not applying the tax to new commercial building.

The court's decision prompted protests from institutions and organisations, including private schools and private hospitals, which in the normal course of their business would be unable to recover the tax.

Changes to be introduced this week would allow property companies, previously VAT exempt, to charge the tax on rents, should they wish. This would give landlords the option to recover VAT charged on new construction, unlike banks and other financial institutions.

Financial institutions, however, might refuse to lease properties where the landlord exercised an option to charge VAT.

There are concerns in the property industry that the changes could damage the sometimes fragile financing of inner-city regeneration projects by raising costs which cannot later be recovered.

John Heddle: fears over inner-city developments

Mr John Heddle, Conservative MP for Mid Staffs, has argued in representations to the Government that financial-sector tenants are most likely to require space in large inner-city developments.

Property industry leaders, including the Building Employers Confederation, have been seeking a longer transitional period before the introduction of the tax on new construction.

Customs & Excise, which administers VAT, had proposed that only property and construction contracts signed before June 21, 1988, would remain free of VAT. However, developers argue that money could have been spent on a project even though construction contracts may not have been signed by that date.

The draft legislation will also be expected to define what is meant by a new building. According to Customs & Excise thinking, this could include buildings up to five years old. The definition of building land will be critical for mixed developments, as residential land does not attract VAT.

Building contracts, Page 27

Tax laws 'discriminatory'

By Andrew Taylor, Construction Correspondent

BRITISH TAX laws are discriminating against foreign contractors working on construction projects in the UK, according to a firm of accountants.

The tax rules, the firm says, conflict with European Community plans to dismantle trade barriers by 1992.

Blick Rothenberg & Noble says it is pursuing with the Inland Revenue more than 12 cases involving Continental contractors working in Britain.

At issue is a British requirement that all construction sub-contractors employing labour should obtain a special tax certificate known as a 714.

Companies employing sub-contractors without a certificate are required to deduct standard rate income tax from fees paid to the sub-contractor.

Mr Bob Rothenberg, a partner, says: "Many of these companies, under double taxation rules, should not have to pay tax in this country. Yet, they may have to wait months to get the money refunded from the Inland Revenue."

To qualify for a 714 certificate, companies would have to establish a tax base in Britain. Some do not want a permanent base because they are only carrying out single contracts, says Mr Rothenberg. He believed the European Community was investigating the issue and had been in touch with the UK Government.

In one case, a West German air-conditioning company was expecting to have to wait up to six months after its work had been completed to recover about £200,000 in taxes.

In another case, a Swiss supplier of food processing machinery was waiting to recover £70,000.

Several Continental suppliers of equipment to a German building materials company in Britain, were pursuing claims involving taxes totalling more than £1m, the firm said.

The Inland Revenue declined to comment on individual cases.

Call for cheap loans to small businesses

By Charles Batchelor

BRITAIN should provide cheap loans to small and medium-sized businesses by establishing a Business Development Board financed with £1bn of government money, the Union of Independent Companies, a small business lobby group, is urging the Chancellor of the Exchequer.

Cheaper long-term finance would allow British companies to compete on a more equal footing with their foreign rivals, which often have access to special low-cost funds, the union said. At present, lending rates in the UK are determined by the need to restrain inflationary growth and support sterling rather than meet the needs of industry.

Mr Tom Lyon, the group's chairman, said in a letter to Mr Nigel Lawson that businesses typically pay at least 15 per cent for finance compared with mortgage rates of around 13 per cent available to individuals for house purchases.

That compares with West Germany where the Reconstruction Bank, set up after the Second World War to channel Marshall Aid into the redevelopment of the economy, provides £4.5bn a year to smaller firms at rates below the West German base rate of 6 per cent. Japan also makes cheap funds available to smaller companies.

The Business Development Board would lend funds at a fixed low rate for up to 10 years to small and medium-sized businesses. It would not, however, provide equity finance. It would increase its initial capital of £1bn with retained profits from investments and by borrowing on the world's capital markets.

The board would not lend directly to smaller companies but, like the German Reconstruction Bank, would make its funds available to Britain's commercial banks to form part of the loan packages they offer their customers. The commercial banks would carry the risk of the loan not being repaid but would be paid a commission by the board to bear that risk.

The union believes the money could be made available at less than the minimum UK bank lending rate and several percentage points below levels currently charged to small business customers.

The board would have to cover the cost of money it borrowed on the capital markets, the expense of maintaining a staff of about 150 people, a contribution to its own reserves and the commissions paid to the commercial banks to cover the risk of non-repayment of the loan.

As well as providing money the board would give advice on business planning to reduce the risk of failure.

By funding such an institution the Government would effectively be using some of the proceeds of privatisation to regenerate British industry, the group said.

"It cannot be too difficult a task to dampen credit on the consumption side of the economy, by increasing its cost, without affecting the manufacturing sector which has to be encouraged to grow," it said.

M and S meal sales affected by listeria fears

By Lisa Wood

CONSUMER FEARS about the contamination of chilled prepared foods by listeria, a bacteria which can cause serious infection, have led to a slight fall in sales, according to Marks and Spencer, Britain's biggest retailer of recipe dishes.

M and S said: "Over the past few weeks we have noticed a slight switch in purchasing, away from the chilled recipe dishes to fresh meat and fish." But, the company added, it expected sales of recipe dishes to return to normal quite quickly.

The supermarket chill cabinet, with its ready-cooked foods, was identified last month by Professor Richard Lacey, of Leeds University, as particularly vulnerable to contamination by listeria monocytogenes.

The bacteria is widespread in the environment. Listeria-related infections, which come from a variety of sources, include meningitis and septicaemia.

M and S said inquiries about food safety had provoked it to distribute 3m leaflets. These gave "the facts" about salmonella contamination in poultry and listeria bacteria in pre-cooked chilled foods.

The company said in its leaflet that it was confident that listeria could be completely removed from all St Michael processed foods by good food handling techniques. "These are well-established at our suppliers' factories and in our stores," said M and S.

Northern Foods, the Hull food manufacturer which is M and S's main supplier of chilled recipe dishes, confirmed that there had been a drop in orders for its chicken dishes and a marginal decline in other dishes. It said that normal demand patterns for recipe dishes seemed to be returning.

Big public sector surplus 'may discourage savings'

By Ralph Atkins, Economics Staff

THE ANNOUNCEMENT of a large public sector surplus on Budget day could encourage a further fall in household saving, says a study published yesterday by the London stockbroking arm of Swiss Bank Corporation.

A Budget surplus and the postponement of tax cuts may do little to curb inflation, argues Mr Chris Dillow, UK economist at the bank. He suggests instead that corporation tax should be cut to maintain investment growth.

The study finds strong evidence of a link between the UK's public sector borrowing requirement (PSBR) and the ratio of income saved by the personal sector. In the late 1980s, the PSBR has shown a surplus with government debt repayment, while the savings ratio has fallen sharply.

Mr Dillow argues that the link may exist because people assume that a surplus will be used for tax cuts in the future. If Mr Nigel Lawson, the Chancellor, made no tax cuts in his Budget on March 14 but promised to reduce income tax in subsequent years, it might encourage borrowing this year.

He says: "The distinct possibility that a rise in the announced public sector debt repayment in this Budget would lead to a tendency for the savings ratio to fall, means that a tight fiscal stance should not be seen as a panacea for current inflationary problems."

Mr Dillow says that in the last five years tax cuts have been heavily weighted towards the personal sector at the expense of the corporate sector. However, profits growth is slowing and this is beginning to hit business confidence.

"The most obvious way of maintaining investment growth, whilst using monetary policy to restrain inflation, would be to use the Budget surplus to cut corporation tax, thereby alleviating the profit squeeze," he says.

Airlines face price war

By David Churchill, Leisure Industries Correspondent

A RENEWED transatlantic air fares price war could be on the way as a result of British Airways' decision to cut prices sharply on a number of flights to US cities.

The move follows Pan Am's decision last week to bring back its £199 return air fare to New York.

British Airways yesterday announced it was matching this £199 economy return fare for midweek flights to New York — as well as offering substantial price cuts for West Coast destinations. The biggest reduction is a saving of more than £300 on the regular £658 return air fare to San Diego.

The price cutting by two of the largest transatlantic air carriers could be followed by other airlines. When the £199 return fare to New York was first brought in last year by BA it proved very popular and was matched by almost all the major carriers.

Early spring is usually a poor time for air travel across the North Atlantic, and a fall in the number of travellers from the US — mainly as a result of the unfavourable exchange rate — has left some spare capacity.

BA's price cuts, however, apply only to flights from the UK between February 13 and March 15 and between April 3 and April 27.

Walkways for Cardiff Airport

THREE walkways enabling passengers to move directly into aircraft on the apron at Cardiff Airport were opened yesterday by Lord Cledwyn, leader of the opposition in the House of Lords.

The £40,000 walkways are part of a £4.4m development. The runway has also been lengthened.

Improved baggage-handling facilities, more car-parking spaces and new holding lounges have already been opened.

The walkways will cater for Boeing 737s, BAC One-Elevens, McDonnell Douglas 83s and F28 Fellowships, which handle 80 per cent of passengers using the airport.

Utility sales 'lead to monopoly mongering'

By Ralph Atkins

THE Government's privatisation programme has sacrificed the goal of greater competition for short-term considerations, says a book published today by the Institute of Economic Affairs.

Emphasis given to competition has been "patchy and variable" in privatisations, says Dr Cento Veljanovski, the book's editor. The proposed structure for a privatised electricity generating sector in England and Wales has "the seeds of collusion and monopoly abuse," he argues.

The book brings together essays on privatisation and competition. It concludes that the sale of utilities like telecommunications, gas, electricity and water is leading to "monopoly mongering" without effective competition.

One solution proposed is to allow strong new entrants — including overseas companies currently blocked by government restrictions — to buy into the businesses.

The authors argue that privatisation is relying too much on the unproven ability of regulation to do what market forces would have achieved without cost.

Dr Veljanovski says that where the Government has attempted to foster direct competition it has mistaken duopoly — competition between two companies — for effective competition and prohibited the entry of new firms willing to provide competitive networks.

He says that in the electricity industry, due to be privatised at the beginning of the 1990s, generation will be dominated by two large companies formed from the Central Electricity Generating Board.

However, potential gains from collusion will be high, he argues, and competitive force will probably not be sufficiently strong either to reduce costs dramatically or to pass on any gains to consumers.

He adds: "Regulation will be required to prevent collusion. But competition is by far the surer way."

Dr Veljanovski says the Government has been unwilling to cut all its ties with many privatised companies and he argues that interference in utilities may continue after privatisation if the Government retains "golden shares."

In 10 out of the 13 companies in which assets have been sold to the public, the Government has a golden share that can be used to block a hostile takeover or one that it finds unacceptable, he says. Only two of the companies, Associated British Ports and British Petroleum, are entirely free of the reins of government.

He says: "The restrictions on individual and foreign ownership simply operate to reduce the efficiency of the capital market and the latter, in particular, ignores the increasing internationalisation of financial markets."

Privatisation & Competition: A Market Prospectus. Hobart Paperback 28. IEA, 2 Lord North Street, London SW1P 3LB. £9.50 plus 50p p&p.

UK NEWS

Ernst & Whinney drops head of consultancy team

By Richard Waters

ERNST & Whinney has become the latest in a line of leading UK accountancy firms in recent months to drop the head of its management consultancy division abruptly.

The departures reflect disquiet below the surface in what has been a spectacularly successful area of business for the accountancy firms.

Several have grown their management consultancy arms to such an extent that they now rival their traditional audit and accountancy business. But the pressures created by this growth have exhausted the management ability of some firms.

Ernst is parting company with Mr Gareth Jones, a former main board director of management consultancy Booz Allen, who was brought in three years ago to run Ernst's UK consultancy business.

Mr Elwyn Eilledge, Ernst's UK senior partner, said Mr Jones had achieved the targets set for the consultancy division, which have included more than trebling its fee income to around £12m.

However, when pressed he said that Mr Jones's successor was better suited to handling the firm's development in the future. But he added: "You put it negatively, whereas I would prefer to put it positively."

Mr Jones is being replaced by Mr Clint Alston, an American who moved to London last summer to spearhead the development of Ernst's information technology practice across Europe.

The firm said at the time that its intention was to keep Mr Alston's operations completely separate from the UK management consultancy business.

Coopers & Lybrand also recently dropped its head of consultancy, Mr David Miller. He was replaced by Mr Peter Allen, an accountant and the firm's overall managing partner.

Mr Brandon Gough, Coopers' chairman, denied that Mr Miller had been demoted or that there had been problems with the consultancy division, the largest of its type in the UK, with fee income of £54m in the year to September 1988.

However, Mr Miller has returned to client work and no longer has any management responsibility.

A third firm, Spicer & Oppenheim, also quietly despatched its head of management consultancy, Mr Tim Bishop. He has been replaced by Mr Alan Hodgart, a former strategic consultant from Deloitte Haskins & Sells, another accountancy firm. Mr Bishop himself once worked for Deloitte, before moving on to run the UK management consultancy divisions of Arthur Young and then Spicer.

Arthur Young, for its part, replaced a former head of consultancy, Mr Keith Stein, about two years ago. Mr Stein still works for the firm as head of its internal strategy unit.

The firm reduced the range of its management consultancy services after replacing Mr Stein.

The changes indicate that growth has not been painless. The pace of change in some firms has outstripped even the consultants' ability to run their own businesses effectively.

According to the top consultant at one of the largest accountancy firms: "The growth is a huge problem both in terms of keeping up profits and, more particularly, in the way people are developed. You just can't build your management fast enough, and quality suffers.

"We have deliberately put a ceiling on our growth as a result."

Labour lists hospitals likely to opt out of NHS

By Charles Hodgson

THE LABOUR PARTY today launches its counter-attack on the Government's proposals for fundamental reform of the *National Health Service* with the publication of a list of more than 300 hospitals, which the opposition claims are marked to "opt out" from the NHS.

The list, which covers many leading hospitals, is based on Labour's interpretation of the white paper's provision that large general hospitals would be encouraged to apply for self-governing status as NHS hospital trusts.

According to Ms Harriet Harman, *Labour's health* spokesman, the party will seek to ensure that opting out "is exposed as a risk to the health of the community and patients everywhere.

"We will target every district which is threatened with losing its local hospital by opting out," Ms Harman said.

Labour argues that the opting out proposals will mean that the quality of care will decline as hospitals cut corners to compete for district health authority contracts and that hospitals will be obliged to provide only core services, forcing local people to travel elsewhere for treatment.

It also claims that wages in opted out hospitals could fall below NHS levels, leading to loss of staff, and that many hospitals may decide not to provide non-emergency services, such as kidney dialysis and diagnostic tests.

Mr Kenneth Clarke, Health Secretary, has firmly rejected the claim that the white paper is a prescription for privatisation of the NHS.

Yesterday, he reiterated his opposition to general tax relief for those choosing private health care outside the NHS. He defended the Government's plan to provide tax relief for the elderly taking out private health insurance, arguing that this would help reduce waiting times in the NHS.

"I see no general case for tax relief . . . I believe in low taxation where people decide how to spend their own money," Mr Clarke told BBC TV's On the Record.

Peacock attacks ITV franchise proposal

By Raymond Snoddy

THE PEACOCK Committee, one of the main influences on the Government's radical new broadcasting policy, yesterday attacked proposals to grant ITV franchises automatically to the highest bidder.

The criticism in evidence submitted to the Home Office reflects growing and widespread opposition to the proposal in the white paper on *broadcasting published* in November that commercial licences should go to the highest bidder after applicants had passed a "quality threshold."

The committee, which reported on the future financing of British broadcasting in July 1986, advocated, by a majority of four to three, a form of competitive tendering for commercial television licences.

But the committee emphasised that the Independent Broadcasting Authority should have the right to reject the highest bid if another company offered more "value for money" in terms of the public interest.

Professor Alan Peacock: pondering plans for ITV

The white paper does not contain such a provision.

In the document submitted yesterday, the Peacock Committee members argued: "We are unanimous in believing that that safeguard ought to be restored. Further we do not believe that the winners of the forthcoming tenders should be granted franchises in perpetuity, which is the likely outcome of the white paper proposals."

The submission was signed by six committee members although Professor Sir Alan Peacock, *who was ill when it* was drawn up, said he fully supported its conclusions.

The committee also warned the Government that it would *be wrong to remove the automatic* linking of the BBC licence fee to the retail price index after 1991 as the white paper suggests. The Government says the licence fee could be based on a less than full RPI basis to reflect the BBC's ability to supplement its income from subscription.

The committee said the BBC should move to subscription as soon as possible but thought this could not take place before 1996. "A premature reduction of the licence fee will have damaging effects both on BBC television and on BBC radio," the submission to Mr Douglas Hurd, the Home Secretary said.

The committee members, who include Professor Alastair Hetherington, former editor of The Guardian; Lord Quinton, the academic; and Mr Samuel Brittan, *chief* economic commentator of the Financial Times, also called on the Government to implement their first recommendation. This was that *all new television sets* should be fitted with a special socket that makes it easier to receive subscription television. The Government believes this *should be left to industry.*

The committee position on both auctioning and the indexation of the BBC licence fee could have a considerable *influence on the content of the* broadcasting bill the Government plans to introduce this autumn.

Labour to debate arms policy

By Charles Hodgson

LABOUR'S defence policy review committee meets tomorrow to discuss last week's fact-finding visit to Moscow by a delegation preparing the ground for a rethink of the party's controversial commitment to unilateral nuclear disarmament.

The meeting will not take any firm decisions but will receive a full written report on the talks with senior Soviet defence and foreign ministry officials.

The message that appears to have emerged from Moscow is that while there may be a role for unilateral gestures by a future Labour government, Britain should take part in multilateral talks covering both nuclear and conventional weapons.

This will be particularly welcome to Mr Neil Kinnock, the party leader, who has made clear his desire to replace the electorally-unpopular commitment to unilateral disarmament with a more flexible non-nuclear approach. This would leave open the full range of multilateral, bilateral and unilateral disarmament options.

There were signs at the weekend of a wider shift in opinion within the Labour Party towards this more flexible approach.

The influential transport union, whose unilateralist leader Mr Ron Todd was part of the Moscow delegation, is thought likely to review its stance as evidence mounts that support for unilateralist policies may be waning *among union members.*

Mr Todd was instrumental in defeating a resolution leaving open multilateral, bilateral and unilateral options at last year's Labour conference in favour of a reaffirmation of strict unilateralism.

● The Conservatives hold an 11-point lead over Labour, according to a *MORI* poll in the Sunday Times. This is the biggest Conservative lead since August and the same margin which gave the Tories a 101-seat majority in the 1987 General Election.

Latest ratings (with last month's equivalent figures in brackets) are: Conservatives 47 per cent (46); Labour 36 per cent (36); Democrats 8 per cent (6); SDP 5 per cent (7); Others 4 per cent (5).

Young defends Government merger criteria

Financial Times Reporter

THE GOVERNMENT operates *a clear and consistent policy* on monopolies and mergers based on the implications of a potential bid for fair competition, Lord Young, the Secretary for Trade and Industry, insisted yesterday.

Responding to criticism that the Government lacked a coherent approach reflected in *a survey of leading financial* advisers, Lord Young said: "It [the policy] is absolutely clear; it is about competition."

The survey, carried out by Channel 4's Business Programme, covered the top 20 financial advisers in the UK mergers and acquisitions field. It cited City confusion over the referral of bids such as Elders for Scottish & Newcastle, where analysts felt there was no threat to competition, and the decision not to refer the Nestlé takeover of Rowntree, in spite of concern over Swiss non-reciprocity.

Lord Young rejected suggestions that ministers were sometimes guided by political issues and said every takeover was different, so competition implications varied with each bid.

Poor advice 'costing housebuyers £680m'

By Eric Short

HOUSEBUYERS are losing an estimated £680m a year by cashing in their mortgage endowment policies when they take out a fresh mortgage or when they rearrange existing mortgages.

The Institute of Insurance Brokers says this represents an unnecessary loss for the *majority of housebuyers.*

The institute criticises banks, building societies and remortgage firms for giving poor advice to housebuyers so *they can collect higher commissions* on new policies. Commissions range from £650 to £1,200 for each new contract.

About 80 per cent of all housebuyers use endowment mortgage policies to repay mortgages. When they take out a new mortgage, usually for a higher amount, the lender persuades them to cash in their existing endowment and take out a fresh one. However, if the cash-in occurs within three or four years of effecting the contract, the housebuyer usually receives less than the premiums paid. This is unnecessary because life companies will alter existing contracts and allow topping up, the institute says, but this reduces the commission.

The institute quotes a market research study into losses on surrender carried out by Mr Peter Matthews of Policy Network, a firm that buys and sells life policies. This showed that 93 per cent of early surrenders in the first few years of the term of the contract related to endowment mortgages. In addition, the average surrender *payment represented a loss of* 18 per cent – giving a total of £680m, according to recent Department of Industry figures – against the premiums paid.

Mr Andrew Paddick, the institute's director general, claims the mortgage shops giving bad advice are usually the appointed representatives of one life company, who can offer only that company's products and therefore could not rearrange the endowment mortgage.

The institute would welcome case histories from housebuyers who have suffered the upsets of surrender.

More pressure on Currie to testify to MPs

By Our Political Staff

FRESH MOVES are expected at Westminster today to force Mrs Edwina Currie, the former health minister who resigned amid the row over the disputed health risks of salmonella in eggs, to appear at a Commons inquiry into the affair.

The Labour Party is to table a motion compelling her to appear before the Commons agriculture committee which is due to hear evidence from Mr John MacGregor, Agriculture Minister, and Mr Kenneth Clarke, Health Secretary, on *Wednesday.*

Mrs Currie has twice declined to give evidence to the committee. However, Tory and Labour MPs' pressure on her has increased *substantially* following reports that she is preparing a book on the affair and has been given access to health ministry documents unavailable to the committee.

Mr Jerry Wiggin, the Tory chairman of the committee, said the fact Mrs Currie was writing a book about the salmonella matter would be a material factor in the committee's decision on whether to seek to force her to appear.

UK NEWS

Murdoch venture sets out to win 'imagination of the nation'

Sky TV meets its first deadline

By Raymond Snoddy

MR RUPERT MURDOCH ushered in "television's new age" in the UK yesterday as four of his planned six channels of satellite television were launched on schedule on the Astra satellite at 6pm.

"This is the television revolution. A revolution in quality. A revolution in quality and choice," said the portentous voice on the two-minute introduction to all four channels before Sky channel, the entertainment service, Sky News, Sky Movies and Eurosport went their separate ways.

Mr Murdoch, the chief executive of News International, was more restrained when he spoke about his very own television revolution in Sky Television's new headquarters at Isleworth, West London.

"We will be proud, perhaps, in a year or two when we have managed to win the imagination of the country," said Mr Murdoch, who will add an arts channel and in a joint venture, the Disney channel, by the summer.

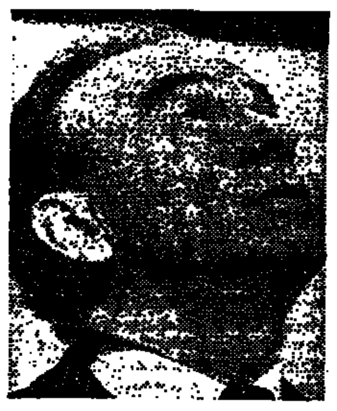
In a carefully-worded statement, the satellite company claimed yesterday: "More than 600,000 homes will be able to see Sky's opening night via cable TV or home dishes in the UK and Irish Republic."

Most of them, in fact, will be able to see only one Sky channel with programmes ranging from country singer, Dolly Parton, at 6.30pm to a Mozart violin concerto at 3 am.

For the main service, with half-hour news programmes on the hour through the day and night, and films, such as The Color of Money, the potential audience consisted of 55,000 subscribers to modern cable networks, 7,000 existing satellite dish owners, plus the few hundred able to buy the new 60-centimetre dishes just now beginning to trickle into the shops.

Mr Murdoch said manufacturers would produce 2.1m receivers this year and Mr Alan Sugar, the chairman of Amstrad Consumer Electronics, was now in Japan to ask his suppliers to add a night shift.

Mr Murdoch said that in addition to cumulative losses in six years of running Sky Channel of £40m, an additional £25m had already been spent to bring Sky Television to yesterday's launch.



Rupert Murdoch yesterday: 'This is a revolution'

It was entirely his fault that satellite dishes had not been in the shops on time. Mr Murdoch said he had believed he could run a free film channel for two years, but found he had to turn it into a subscription channel much earlier because of the opposition of the Hollywood studios. This led to a change in design in the equipment and a hold-up in manufacture.

As Sky Television went on the air, Mr Bryan Gould, Labour's industry spokesman, wrote to Lord Young, the Trade and Industry Secretary, asking him to refer all Mr Murdoch's media interests in the UK to the Monopolies and Mergers Commission. Apart from the six television channels he will control by the end of this year, Mr Murdoch owns five national newspapers.

Mr Murdoch was in relaxed form dealing with questions yesterday.

Would the Sky venture, expected to cost £150m this year, push News International into immediate loss?

"No," said Mr Murdoch.

How long would Mr Andrew Neil be both chairman of Sky and editor of the Sunday Times?

"As long as his energy holds out," said his proprietor.

Wasn't he just importing a lot of poor-quality American television, asked the man from the Guardian newspaper.

Watching American programmes was a lot better than coming home late at night and finding nothing to watch but snooker.

BT expected to face competition from Mercury nationwide

By Hugo Dixon

MERCURY Communications seems certain to be allowed to compete with British Telecom for customers across the whole of Britain, after a decision by the Office of Telecommunications, the industry watchdog.

The decision is the latest attempt by Oftel to inject more competition into the UK's telecommunications markets. Four and a half years after its privatisation, British Telecom still dominates the industry, earning about a hundred times as much revenue as Mercury, its only rival.

One of Mercury's most bitter complaints has been that BT has been trying to keep it out of the market. As a result, only half the country has access to its service, the company claims.

An Oftel executive said at the weekend that it had decided that the interconnect agreement applied across the whole of the country. BT would, therefore, have to open up its network to Mercury on the terms set out in the agreement. BT refused to comment.

Oftel's decision – unless challenged successfully by BT – will mean that anybody in Britain will be able to switch to Mercury for long-distance calls.

The dispute has flared up because Mercury's network is not nearly as extensive as BT's. Instead of putting a telephone line into every home and office in the country, it has concentrated on building a long-distance network linking cities.

As a result, Mercury can connect only a handful of customers to its network directly. Most of the time, it has to rely on BT to carry a call from the customer's premises to its network.

For this, Mercury pays BT a fee set by Oftel at a sufficiently low price to encourage competition. The whole matter is set out in a complex document called the "interconnect agreement."

Last year Mercury complained to Oftel that BT was breaking this agreement by refusing to connect customers in half of the country. It said it was having to reject many potential customers and its capacity to compete was being damaged.

BT, in turn, said that the interconnect agreement applied only when Mercury's network was close to the customer it wanted to connect.

Privatisation plans for water threatened by leap in charges

By Richard Evans

THE GOVERNMENT's water privatisation plans were in disarray last night as ministers faced threats of increases in charges of up to 50 per cent from statutory water companies.

Industry leaders also gave warning yesterday of a significant drawback in the privatisation legislation that would make the authorities much less attractive to investors.

The 29 statutory water companies, which supply a quarter of all households in England and Wales, announced they were planning to put charges up by at least 30 per cent, and in some cases 50 per cent, to meet the challenge that privatisation will involve.

Mr Michael Howard, Environment Minister in charge of the water industry, immediately summoned water company chiefs to explain why they intended to raise charges by more than the average of less than 10 per cent imposed on the state sector water authorities by the Government only last week.

The drawback in the privatisation provisions will be disclosed tomorrow when details are due to be announced of a guaranteed standards scheme under which water providers will have to pay a customer £5 a day if they fail to provide a water supply.

No penalty will be incurred if an incident is outside the control of the water supplier, but crucially, these exclusions do not include strike action.

Industry leaders have pointed out to ministers that this means that a privatised company could face financial catastrophe after a strike of only 10 days.

The Environment Department said if the water authorities and the statutory companies were to act commercially "they have to take normal commercial risks."

Mr Howard's anger was triggered by a statement yesterday from the Water Companies Association announcing the big rise in charges from April 1 in order to be financially as strong as possible before the new regulatory regime is imposed with the flotation of the 10 water authorities in November.

Mr Michael Swallow, director of the association, said the Government was putting shareholders first instead of customers, and the companies could fund their capital programmes only by raising charges.

Companies have 'severe' labour hiring problems

By Jimmy Burns, Labour Staff

BRITISH companies are facing continued widespread recruitment difficulties. A survey of 3,000 companies published today finds that 65 per cent of those in the manufacturing sector and 55 per cent in the service sector had problems recruiting the right labour.

Some employers may have been cutting back in a less-assured economic climate. "Recruitment difficulties are no longer the preserve of certain regions. They are now a severe problem throughout the UK," the Association of British Chambers of Commerce says in its survey report.

It suggests that while shortages remain particularly acute among clerical and unskilled labour in most parts of the country, there has been some easing of difficulties among skilled manual staff.

Wage pressures push up settlements in industry

By Ralph Atkins, Economics Staff

PAY settlements in manufacturing industry rose to an average of 6.9 per cent in the last three months of 1988, according to the Confederation of British Industry's pay databank survey published today.

The increase in the previous three months was 6.3 per cent. The new figure suggests that wage pressures in the economy are not abating.

The survey also shows an acceleration in pay in private-sector service industries. In the second half of 1988 settlements in that category averaged 7.3 per cent, up from 6.9 per cent in the first six months of the year.

The CBI's analysis shows that the main upward influences on manufacturing settlements since August 1 1988 have been the cost of living and the need for companies to recruit or retain staff.

Average manufacturing earnings are growing much faster in Britain than in the US, Japan, West Germany or France, the CBI says. Even after taking account of productivity, Britain is still at a disadvantage.

Latest figures show the cost of labour per unit of output in manufacturing rising at an annual rate of 0.5 per cent in Britain. That compares with no growth in the US and falls of 1.3 per cent and 0.9 per cent in Japan and West Germany respectively.

LEGAL COLUMN

Mixed practice appears harder than theory

By Raymond Hughes

AS ANTICIPATED, Lord Mackay, the Lord Chancellor, has opened the door to inter-professional alliances offering the customer the competitive option of one-stop shopping for legal, financial and other services — much, no doubt, to the satisfaction of Sir Gordon Borrie, the Director General of Fair Trading.

However, opening the door is one thing. What remains to be seen is who will walk through it.

Since Lord Mackay announced last autumn that mixed practices or multi-disciplinary partnerships (MDPs) would be among the matters looked at in his green papers on the structure and working practices of the legal profession, it has become clear that the biggest obstacle will probably be the question of control.

Neither solicitors nor accountants, prime candidates for such alliances, seem willing — or in the case of accountants, possibly, able — to countenance the idea of the other profession having majority control. The Law Society of England and Wales, which has until fairly recently been, to say the least, lukewarm on the subject, has taken the firm line throughout that solicitors should be in the majority in any mixed practices which they join.

Its stance is based on the view that its rules and professional standards make it essential that its members should exercise control.

However, the Institute of Chartered Accountants points to a European directive being incorporated into the 1989 Companies Bill which requires accountants to have 51 per cent control of any business which is engaged in auditing work.

The idea that competition and consumer interest might require some alteration of professional rules began to be debated about five years ago.

In 1985, the Government appointed Sir Gordon Borrie to carry out a "review of restrictions on inter-professional links or mixed partnerships."

Last year Sir Gordon, who has become an enthusiastic advocate of MDPs, intimated that if the law societies of England and Wales and of Scotland persisted in banning MDPs, the matter might be referred to the Monopolies and Mergers Commission.

In November, within days of Lord Mackay's announcement, the Law Society of England and Wales disclosed that it had written to 13 other professional bodies inviting them, without commitment, to discuss the issue. Just before Christmas a meeting took place between representatives of the Law Society of England and Wales and a dozen other professional bodies representing accountants, architects, actuaries, consulting engineers, estate agents, insurance brokers, patent and trade mark agents, surveyors and valuers.

Richard Gaskell: suggested separate subsidiaries

The Bar Council had been invited but was unable to attend — it is understood for practical rather than ideological reasons. The meeting agreed that in any MDP involving professions with different professional standards, the higher standards should generally prevail — a view echoed in the green paper and which could in certain instances be a solution to the question of control of the partnership.

A working party was set up, chaired by Mr John Randall, the Law Society's Director of Professional Standards and Development.

One of the principal matters it will have to address is the shape of any inter-professional alliance: whether it should, or could, be a partnership or whether some other form would be more practical or appropriate.

A model of a mixed practice, as opposed to a partnership — which found some favour among the non-solicitors at the December meeting — was that which had first been mooted by Mr Richard Gaskell, Law Society president, at its conference in Cardiff last October.

Mr Gaskell suggested that, with rules enabling the incorporation of solicitors' practices likely to be introduced this year, it might be possible to have groups of companies offering, through separate and distinct professional subsidiaries, a mix of professional services.

The green paper observed that there appeared no reason why mixed practices should be partnerships rather than a corporate structure — "even one where solicitors did not control the ownership of the company."

The fact that Lord Mackay apparently does not flinch from the prospect of non-solicitor control would appear to cut much of the ground from under the Law Society's objections. However, that does not mean that the objections will not be maintained and that the control problem will not still be an issue, even for the corporate structure model.

While a solicitors' subsidiary and an accountants' subsidiary might be in practice autonomous, the question would remain of the division of control of the holding or parent company.

Accountants would seem bound to insist on 51 per cent — which would be unlikely to be acceptable to the solicitors.

It would, in theory, be possible to get round the difficulty by having a mixed practice in which one or both professions eschewed their legally reserved activities: litigation for solicitors, auditing for accountants. The latter would seem better placed to offer that sort of concession.

If, as expected, the European Commission removes the legal requirement for small companies to be audited, many smaller accountancy firms, which already depend less on audit work than on giving tax, insolvency and general financial advice, might be prepared to forego auditing and so be able to accept at least equal control, if not solicitor control.

Another problem concerns the legal professional privilege that exists between solicitors and their clients, which has no equivalent in other professions — something barely touched upon in the green paper.

That raises the matter of communication of clients' affairs between partners from different professions — the absence of which would render the alliance largely otiose — or the spectre of Chinese walls separating the different professions.

Legislation might extend the privilege to all members of a mixed practice; alternatively such privilege could be removed altogether.

The starting point for this, as for all aspects of the whole issue, would be what would be best in the public interest.

The green paper proposed amending the Solicitors Act to remove the statutory bar preventing solicitors entering into MDPs and said that practice rules would have to be similarly amended and the competition authorities satisfied that any remaining restrictions were not unnecessarily anti-competitive.

However, without a solution to the practical problems the green paper's good intentions may amount to little more than window dressing.

LEGAL APPOINTMENTS

LAW SOCIETY ADMISSIONS 1ST FEBRUARY 1989

ABOUD, Elizabeth Jane B.A Miss, Wirral
ADAMS, Richard Arthur LLB Mr, Exeter, Devon
ALVANDI, Heather Louise LL.B Mrs, Coventry, Warks
ANDREWS, Nichola Kerine Dean LL.B Miss, Plymouth, Devon
ASHWORTH, Stephen John B.A. Mr, London
BARRY, John Leslie LL.B Mr, Reading, Berkshire
BARFORD, Bridget Caroline LL.B Miss, Wadhurst, East Sussex
BARRETT, Mark Edward LL.B Mr, East Chiltington, East Sussex
BEGENT, Carol Anne BA Miss, Hounslow, Middlesex
BIDDULPH-SMITH, Neil Robert LL.B Mr, Guernsey, Channel Islands
BIRKENSHAW, Diane LL.B Miss, Leeds
BLAIR, Richard John Gordon LL.B Mr, St Germans, Cornwall
BOUTLE, Jane Elizabeth LL.B Miss, Loughborough, Leicestershire
BRENNAN, Diarmuid Padraig LL.B Mr, Ramsgate, Kent
CAMIDGE, Richard Lawrence B.A. Mr, Wetherby
CARR, Julia Suzanne LL.B Mrs, Ryton, Tyne and Wear
CARROLL, Angela LL.B Mrs, Hounslow, Middlesex
CASEY, Vanessa Kathryn LL.B Miss, St Albans, Herts
CAWTHORN, Maureen Sneddon LL.B Mrs, Hebden Bridge, West Yorkshire
CHEETHAM, Gillian Elizabeth B.A. Miss, Marple, Stockport
CHUBB, Robin Lindsay B.Sc Mr, Cardiff, South Glamorgan
CLARK, Michelle B.A. Miss, Washington, Tyne and Wear
CLARKE, Jayne Louise Miss, Loughborough, Leics
COE, Nigel Petrie B.A. Mr, Wilmslow, Cheshire
COLLINS, Wendy Carolyn LL.B Miss, Kingston upon Thames, Surrey
CORBES, Sarah Elizabeth B.A Miss, Yeadon, West Yorks
COX, Robert Andrew B.A Miss, Grantham, Lincolnshire
CRAGG, Stephen James M.A. LL.B Mr, London
CROFT, Sarah Louise LL.B Miss, London
CROSSLEY, Martin James LL.B Mr, West Ardsley, Leeds
CURTON, Melanie Elizabeth LL.B Miss, Dorking, Surrey
DANBY, Michael Phillip LL.B Mr, London
DAVID, William Guy B.A. Mr, London
DEANE, John Patrick LL.B Mr, London
DENTON, Sara Jane LL.B Mrs, Gillingham, Kent
DORRINGTON-WARD, Henrietta Lola B.A. Miss, London
DUNCAN, Angus James LL.B Mr, London
ECCLES, Martin LL.B Mr, London
EDWARDS, David Mark LL.B Mr, Chorley, Lancashire
EVANS, Dylan Price B.A Mr, Cardiff
FOX, Robert Charles Millard LL.B Mr, Yeovil, Somerset
FREEMAN, Howard Paul LL.B Mr, Edgware, Middlesex
GARNHAM, Clare Louise LLB Miss, Leeds, West Yorkshire
GEORGE, Michelle B.A Ms, London
GEORGEVIC, Mark Andrew B.A. Mr, London
GIBSON, Carol Ann LL.B Miss, Nuneaton, Warwickshire
GILL, Richard Peter John LL.B Mr, London
GILMOUR, Patrick Alan B.A. Mr, London
GLEDHILL, Robert Marc LL.B Mr, Bradford, West Yorkshire
GLEESON, Michael Anthony B.A. Mr, London
GOODRICH, Michael James B.A. Mr, London
GRAY, Wendy May (Solicitor of the Supreme Court of New Zealand) Miss, London
GREEN, Rebecca Catherine LLB Miss, London
HAGUE, Jeremy Peter B.Sc Mr, Chesterfield, Derbyshire
HALLIWELL, Michael Grahame LL.B Mr, Blackpool, Lancs
HARPER, Lydia LL.B Miss, Cardiff
HASTE, Richard Ernest LL.B Mr, Taunton, Somerset
HORLER, Stuart Gwyn LL.B Mr, Tonypandy, Mid Glamorgan
HUMES, Nigel John B.A Mr, Chester-le-Street, Co Durham
HURRELL, Susan Elizabeth B.A. Miss, Hove, East Sussex
HYDER, Nigel Jonathan Allan M.A. Mr, Tunbridge Wells
IRO, Augustine Mr, Liverpool, Merseyside
KAVANAGH, Paul Anthony LL.B Mr, Sutton, Surrey
KEANE, Ivan John LLB Mr, London
KINGSLEY-SMITH, Nicholas Mark LL.B Mr, Sittingbourne, Kent
LAVINGTON, Jonathan Peregrine Francis Gwynn B.A. Mr, Hong Kong
LENEPVEU, Debra Michele (Solicitor of the Supreme Court of Victoria) Ms, London
LEE, Brenda Fen (Solicitor of the Supreme Court of Hong Kong) Ms, Hong Kong
LEWIS, Timothy Julian B.A. Mr, London
LITTLEHALES, James Boyd B.A. Mr, London
LOWENS, David Alan B.A. Mr, Stoke on Trent, Staffordshire
MATTHEWS, Neil Gordon LL.B Mr, London
MEANWELL, Judith Helen Miss, Lincoln
MELLOR, Harriet Elizabeth Mary LL.B Miss, London
MITCHELL, Michael John LL.B Mr, Cambridge
MITCHELL, Phillip Geoffrey B.A. Mr, Hartlepool, Cleveland
MOK, Catherine Wai-Man B.A. Miss, London
MOK, Chiu Kuen (Solicitor of the Supreme Court of Hong Kong) Mr, Hong Kong
MORRELL, Mark Anthony LL.B Mr, Huddersfield
MURRAY, Kevin David LLB Mr, Stockport, Cheshire
NG, Kin Yuen (Solicitor of the Supreme Court of Hong Kong) Mr, Hong Kong
NICHOLLS, Julian Martyn LL.B Mr, Exmouth, Devon
NIXON, Garry LL.B Mr, Great Orton, Cumbria
O'CONNELL, Maria Anne LL.B Miss Godalming, Surrey
O'NEILL, Shaun Carey B.A Mr Newcastle upon Tyne
OATHAM, Denise Yvette LL.B Miss Leigh-on-Sea, Essex
OLINS, Andrew Robert B.A. Mr, Stanmore, Middlesex
OLIVER, Lindsey Ann B.Sc Ms, Greenford, Middlesex
ORME, Russell Peter LL.B Mr, Birmingham
PAY, Lucinda Mary LL.B Miss, Malton, North Yorkshire
PENN, Graham Anthony LL.B Mr, London
PICKFORD, Thomas Andrew B.A. Mr, Stoke on Trent, Staffordshire
PIERCE, Mar. B.Sc Mr, Yelverton, Devon
POWELL, Ruth Elizabeth LL.B Miss, Liverpool
PRESTON, Dermott Patrick LL.B Mr, Blackburn, Lancs
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Corporate reorganisation

How NFC decided which road to follow

Philip Coggan on the UK-based group's product-led structure

As NFC, formerly National Freight Consortium, prepared for today's stock market listing, its chief executive, Jack Mather, realised he had to reorganise. The transport and distribution group had grown so quickly since 1982 when it was privatised in an employee buy-out that its management structure needed changing.

"The company was two-and-a-half times bigger than at the time of the buy-out but the organisation really hadn't changed," he explains. "My span of control was getting too wide."

At the time, the company had nine main UK business units. Each of them held six important meetings a year. There were a further 16 functional meetings a year. Even before Mather attended board meetings, 70 of his working days were tied up in intra-group meetings.

The only operating part of the company not directly under Mather's control was NFC International, which covered the four main business units overseas (including the Allied Van Lines removal subsidiary in the US.)

The question of how to handle these units in the reorganisation was given added force by NFC's intention of turning itself into a broadly-based international group, escaping from over-dependence on the UK economy.

The aim is to derive 25 per cent of profits from abroad by 1990; Mather claims that it achieved 23 per cent in 1987-88. Priority areas for expansion are the US, Australia and Europe.

The big structural question for NFC was whether to organise the company on geographical or product-led lines. Should there be worldwide product divisions, managed centrally? Or should each country be a replica of the parent, with a national boss running all the local operations?

The main argument in favour of this geographical type of structure was that the company needed to recognise the culture of the countries in which it was based, with their different systems of tax, labour laws and so on.

However, NFC decided on a product-led structure instead. "We could have attempted to replicate the structure of NFC in other countries outside the UK," says Mather. "But we've found in the UK that product specialisation is the key to success." Only in the US, where a small holding company has been set up for legal and tax reasons, is there a partial exception to the product-based structure.

The new NFC organisation comprises four divisions – transport; distribution; home services; and travel and property. Each division has its own managers based at the group headquarters in Bedford responsible for finance, business development/marketing, personnel and information technology. Relationships between the divisions are handled through a chief executives' meeting every four weeks.

"The new structure has all sorts of implications in terms of looking hard at brand names," says Mather. "Which of them can be taken international? Do we need new brands? Pickfords is a powerful brand name in the UK but Allied Van Lines is just as powerful in the US." There is little sense, he argues, in trying to transfer those names from one country to another and thereby dilute their impact.

Whatever the brand names, the combination of Pickfords and Allied Van Lines gives NFC what it claims is the world's first centrally-owned worldwide removals network, with bases in Australia, New Zealand, Japan, Hong Kong, Singapore and the Middle East, as well as Europe and North America.

The new management structure highlights the way the company has profited from the gradual redirection of its business – away from road haulage with its low margins and towards more sophisticated, added-value services.

The distribution division is an example of this. "It takes us out of the area of just running a truck up the motorway," says Mather.

An NFC company called Fashionflow, for example, works solely for Marks and Spencer, the retailing group, from seven depots. It collects goods from the manufacturer and brings them to the retail outlets. Fashionflow is an integral part of Marks and Spencer's distribution system. It minimises congestion at the back of M and S's stores and reduces the expense of stockholding in High Street premises.

Among NFC's strategic objectives is to increase this side of the business by taking over the fleet and distribution activities of large UK corporations. It already operates distribution services for Texaco, Birds Eye Wall's, and Unilever. Using outside contractors saves the customer from tying up capital in distribution which could be used for mainstream activities.

NFC also argues that it can operate distribution activities more efficiently than its customers. "When we took over the Texaco fleet, we did with 400 drivers what they did with 650," says Mather.

Acquisitions are another corporate objective. James Watson, NFC's deputy chairman, heads a strategic acquisitions unit. In the light of the company's target for international diversification, overseas acquisitions are a particular priority. Purchases are expected to be in distribution in Europe and the US, and in the removals and travel sectors in North America.

The company is keen to keep its strong employee involvement, which has existed ever since workers stumped up money to purchase shares when the company was bought out from the Government in 1982. A key factor is to have strong management at the lowest levels of the hierarchy; to build this, NFC recruits 65 graduates a year.

"We insist on profit centre management," says Mather. "Staff are brought up in a culture that profits count. Managers' pay is linked to profitability and the aim is to have profit sharing at the lowest level."

Of course, employees have a built-in incentive because of the shares they own as a result of the buy-out. Those shares are expected to have increased in value eighty-fold by the time the shares start trading.

Mather is well aware that NFC will be under close scrutiny now it has joined the stock market. It will need to ensure continued earnings per share and profits growth. But whatever its structure, the group is determined to hold on to what it sees as the vital ingredient in its success – the ethos of employee involvement. The workers, it says, are the first to spot flaws in the running of the company.

Jack Mather: "We've found in the UK that product specialisation is the key to success"

The four divisions

■ TRANSPORT. This mainly consists of BRS (formerly British Road Services) which operates businesses in contract hire, truck rental, engineering services, freight management and warehousing. Also included in this division is Lynx, the parcels delivery company – which has had problems in the past but is now on the way to making money. In the last financial year, to October 31 1988, transport turnover rose 11 per cent to £449m; operating profits were up 56 per cent to £32m.

■ DISTRIBUTION. Offers a sophisticated service involving inventory management and just-in-time delivery systems, part of what Mather describes as the science of supply chain management or logistics – keeping the minimum amount of stock in the system. The division's turnover was £305m in the last financial year; operating profits were £22m.

■ HOME SERVICES. This division is built round the well-known removal services, Pickfords in the UK and Allied Van Lines in the US. But there are other important businesses in the division. Pickfords Industrial offers removal services for the corporate sector, and has moved factories from Illinois to Doncaster. And Homespeed delivers furniture from retailers to the customer. Turnover in the last financial year was £414m, with operating profits of £20.4m.

■ Travel and property. This division has 320 retail outlets through the Pickfords Travel business. It also has a fast-growing service for business travellers operating through 50 units. The property part of the division was set up in 1982. It is a one-third partner, with Rosehaugh and Stanhope, in the consortium developing a 125 acre site behind Kings Cross station in London. NFC's development director is eager to squeeze unwanted property out of the subsidiary companies where possible and has a trading portfolio which, says Mather, "gives us properties we can sell if times are hard." Turnover was £68m in the year to October 1988; operating profits were £3.6m.

Too much time on office politics?

Michael Skapinker thinks not

Many managers have stopped working, says Abraham Zaleznik, professor of leadership at the Harvard Business School.

These work-shy managers have not actually resigned from their companies, he says; they still come into the office put in long and punishing hours. But they spend their time on office politics and resolving disputes between employees, rather than on marketing and production.

"While no hard data exist, observation tells me that too many managers put inter-personal matters, power relations and pouring oil on troubled waters ahead of real work," Zaleznik writes in the latest Harvard Business Review.

He adds that "social relations and office politics get more attention than customers and clients. Managers are measured by how well they get people to go along with the company's expectations," not by the company's performance.

What Zaleznik calls "the subordination of real work to psychopolitics" has two causes. One, he says, is the growth of big, complex organisations, with the accompanying problem of getting large numbers of people to work together.

The second cause "is the great success the human relations school of management has had in uncovering the social aspects of organisations and teaching them to executives."

He says that these people came up with a new definition of the management role: developing and maintaining a system of co-operation.

The contemporary role of the manager, according to the human relations people, is "to enhance workplace harmony."

This is not unimportant, Zaleznik admits. The problem is that it has begun to take priority over the running of the business. Moreover, managers have been taught that it is wrong to exercise their power openly and that "managing by ambiguity and indirection is the wave of the future."

When the boss receives a report with which he does not agree, he resists the temptation to say: "Those are terrible ideas. Here's what we should be doing." Instead, he courteously inquires whether his subordinate has considered an alternative course of action. To which the subordinate replies that the alternative was considered but was found to be unsatisfactory.

But how accurate is Zaleznik's view that the real work of business is being undermined by a cadre of would-be psychotherapists?

One suspects that many employees on both sides of the Atlantic might take issue with his assertion that "few managers today behave as autocrats" and that managers, as a group, "are exceedingly polite, considerate of others, egalitarian in their behaviour and sincerely interested in making other people comfortable with the differences in power that exist in every organisation."

No doubt such managers do exist. On the other hand, there is still no shortage of managers who behave as autocrats, are exceedingly impolite, inconsiderate and inegalitarian, and sincerely uninterested in making others feel comfortable.

Furthermore, there is no indication that managers of the latter type do any more real work than the psychotherapists. Authoritarian organisations also measure managers by how well they get people to conform to expectations rather than by how well the company performs.

Managers in such companies know when a course of action is not in the interests of the business. They also know that to protest might cost them their jobs. Instead of smoothing ruffled feathers, they spend their time ingratiating themselves with the powers that be, and putting the word about that rival managers might be less loyal than they seem.

To be fair, Zaleznik is not an advocate of the authoritarian organisation. He knows that the effective manager, like the good parent, is the one who can combine firm guidance with the caring touch. But the question of how to achieve that delicate and difficult balance is an ancient one – and people were asking it long before the human relations crowd arrived on the scene.

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ARTS

Hedda Gabler

OLIVIER THEATRE

It used to be said that Hedda Gabler, like Hamlet, was a hoop through which every ambitious performer must jump. In recent years the role has been mistakenly consigned to the province of accomplished but over-ripe, bored housewives.

The magnificent National Theatre revival, directed by Howard Davies, takes the role further back to Ibsen's original 29-year-old dumbfounded with despair after the six-month honeymoon. Juliet Stevenson is poised dangerously on the cusp of experience and expectation. That last word in Christopher Hampton's new version is the strongest indication of Hedda's pregnancy. Otherwise, the clue of her physical condition is allowed to meld with the metaphoric images of child murder and intimations of courage through suicide that are ever-spreading ripples on the play's linguistic surface.

The evanescent texture, the sub-text or counter-play, is boosted by the presentation. Bob Crowley's design is circular; a wrought iron stairway initially festooned with welcome-home flowers rising to the central portrait of General Gabler. A wrap-around library still leaves room for a habitable conservatory, one of whose panes Hedda shoots out as Judge Brack steps through the outer door.

The terms on which Brack, played with novel calculation and minimum smarminess by Norman Rodway, infiltrates the household are clearly related to the deal on a desirable villa. The mistake Hedda has made is clear from the outset. The place is a mausoleum surrounded by a forest of dead bracken and yellowing leaves.

Like Rupert Everett in *The Vortex*, Stevenson plays the piano rather well, thumping out Dominic Muldowney's valse macabre which she transforms to a tarantella before the solution. She has descended into the arena cutting in on Tesman's Chekhovian barking on what memories his slippers bring back with "Not to me!"

Beyond Hedda's horizons looms the blissful possibility of being soul-mates with men, not their appendages. The final nail in her coffin comes when the drudging secretarial accomplice Mrs Elvsted is revealed as Lovborg's true inspiration, true soul-mate.

Because the production sets out to embrace all the possibilities of the play, it allows for a just consideration of the melodramatic elements. Stevenson's cackle is a terrible release, but also commentary. She plays as if one step ahead of the character, so we can imagine her claims to cowardice false. A big laughs comes when she anticipates *the play's* final lines. As with Hamlet, we know what happens. Stevenson, rarely and beautifully, plays on this knowledge, uses it as a springboard. Hedda's true capacity is for death, for some ghastly alone-ness. There is an enigma at Hedda's heart, a psychological elusiveness that is perennially modern.

All the readings are fresh and interesting. Paul Jesson is an intense and driven Lovborg resembling Kenneth Branagh's elder brother. Paul Shelley has his deferential bookishness written by Hampton into his speech patterns. And Suzanne Burden's steely, decisive but finally submissive Mrs Elvsted is only let down by the horrid frizzy clump of a wig that is supposed to signify the most striking thing about her.

Michael Coveney

Juliet Stevenson — Alastair Muir

OBITUARY

John Cassavetes

Actor and film-maker John Cassavetes, who died at the weekend aged 59, was perhaps the oddest, most original jigsaw-piece ever to fit – or rather not quite fit – into the puzzle of modern Hollywood.

Overpraised for his directing debut, the moody, rough-edged *Shadows* (1961), he spent the 1960s being hailed as the messiah of American underground cinema. The decade of radicalism adored the *ciné-verité* tools of his trade: improvisation, hand-held camera, sprawling narratives and an acting troupe composed mainly of old friends (Peter Falk, Ben Gazzara and wife Gena Rowlands).

But those tools worked in alarmingly hit-or-miss fashion. *Faces*, *Minnie And Moskowitz* and the splendid *Killing Of A Chinese Bookie* all had moments of charm, power or electricity. But Cassavetes could also be rambling and undisciplined, as in *Husbands*, and over anxious to provide histrionic showcases for his wife, as in *A Woman Under The Influence* or *Opening Night*. However, it was a Gena Rowlands vehicle – one Cassavetes had written but not planned to direct (judging it too conventional) – that proved his best film of all.

Gloria, which won the Golden Lion at Venice in 1980, is a wonderful movie. A feminist gangster thriller, it blends Cassavetes's tough, street-wise serendipity (motto: if it moves, shoot it) with a plot as strong, witty and beautifully sculpted as *The Godfather*.

The son of a Greek immigrant businessman, Cassavetes began as an actor and continued to tread the boards between directing projects. A dark, sardonic presence on screen, his nasal twang, curled lip and weathered cynicism recalled Humphrey Bogart.

But after a long run as the hero of a hit TV series in the 1950s, *Johnny Staccato*, Cassavetes found his natural level not as a lead but as a foil, a villain or a character actor.

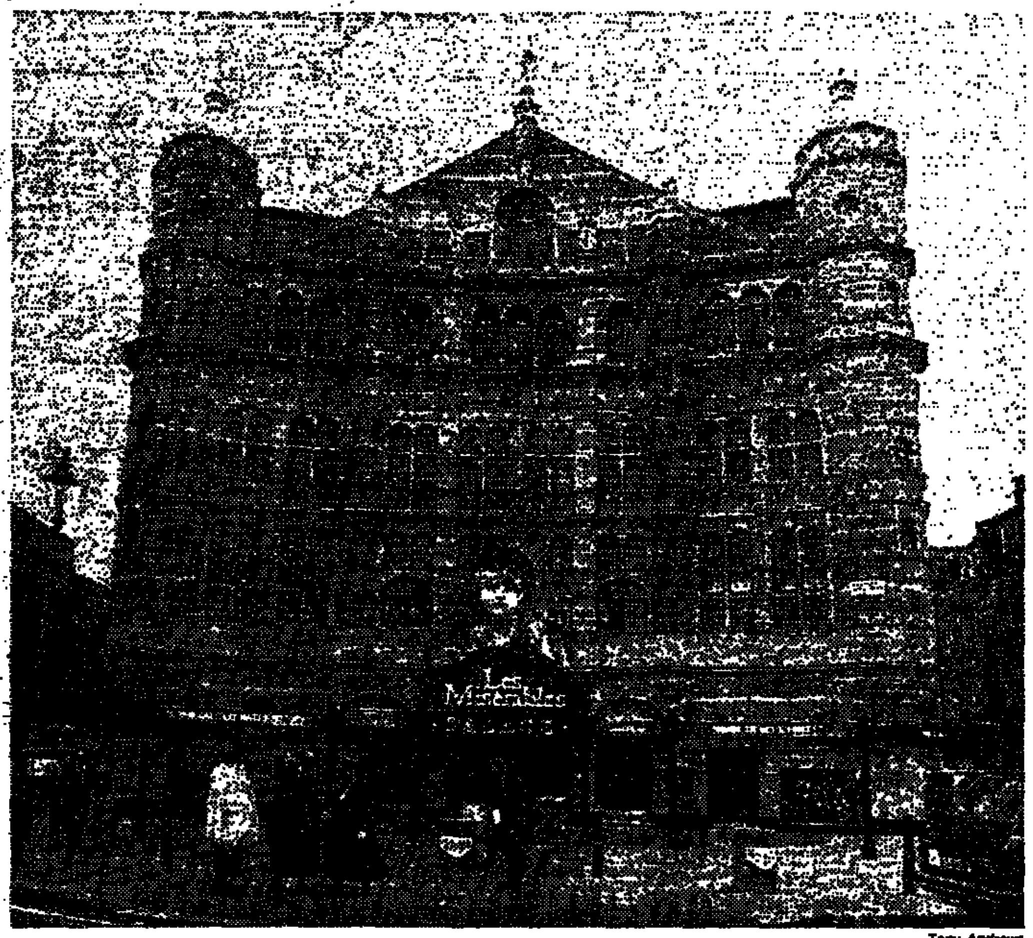
In *The Killers*, *The Dirty Dozen* and *The Fury*, he was a tough guy you would not quite want next to you in a crisis. (Too saturnine, too untrustworthy). And in his best-known film role, as the husband in *Rosemary's Baby*, we understand why Mia Farrow fled into the arms of Satan where she might get, for a few moments at least, the semblance of real passion.

Like another wonder child of the cinema – Orson Welles – Cassavetes never quite grew up into a wonder adult. His novel film-making techniques lacked any underpinning of novel thematic ideas: they were variations in search of a theme.

Where his work succeeded was in shaking up the narrative formulas of post-war Hollywood cinema.

After Cassavetes, it was possible to compose a film "on the wing": making use of improvised dialogue, free-range location shooting and loose-limbed storylines. It is epitaph enough on Cassavetes to say that movies like *Easy Rider*, *Nashville* or *Mean Streets* might never have happened without him. In spite of his initials, John Cassavetes was not the messiah of modern Hollywood. But when histories come to be written, he may well be seen as its John the Baptist.

Nigel Andrews



The refurbished Palace Theatre, Cambridge Circus — Tony Andrews

ARCHITECTURE

Theatres get a face lift

Frank Matcham, king of Victorian and Edwardian theatre architects, must be dancing a jig wherever he is these days. The festive, ornate theatres that he and a handful of other busy designers put up all over the country, are back in fashion.

In 1982, an exhibition entitled *Curtains!* drew attention to the subject. The catalogue included a chronological list of interesting theatres built up to 1914 (as well as a sad and substantial obituary column). Among the survivors, many were out of use and vulnerable as a result.

Since then most of the news has been good, and every year a number of theatres rejoin the list of those in use – although applications to demolish still trickle in at a steady rate, as the Victorian Society and the Theatres Trust between them can relate.

The latest major theatre to be earmarked for restoration and reopening is the Lyceum, Sheffield, dark for 25 years. In 1971, following advice from Tyrone Guthrie, the city built a new thrust stage theatre, the Crucible. The old theatre, built in 1897 by W. Sprague, stood beside it, intermittently used for bingo and then as a pop venue, slowly deteriorating under the odd coat of unconvincing paint.

Renton Howard Wood Levin designed the Crucible and now they are about to start work on the Lyceum. The wheel has come full circle: in some ways, it has been the enormous success of the Crucible, used for *everything from opera to snooker*, that has made a £12m project to restore and extend the Lyceum feasible. The Crucible set new standards for a theatre as a public place; on a dingy winter day, hours before *curtain up*, it buzzes with life. The Lyceum will build on that.

The Nottingham Playhouse was RHWL's first venture into renovation. There, as in the jobs that have followed, a balance had to be achieved between the historic and architectural character of the building and the practicalities of modern theatre: the need for space for touring productions; adequate backstage facilities; and attractive public areas front of house. These must be welcoming and open to all, unlike the class distinctions of Victorian theatre which ensured that holders of different seat prices never passed on the stairs, far less rubbed shoulders in the bar. Theatre-going, at least, has become more democratic.

Nicholas Thompson is the partner at RHWL responsible for their theatre work, both old and new. His wife Clare Ferraby is the consultant for interiors. Last year, the practice completed the sumptuous refit and remodelling of the Theatre Royal Newcastle; classical splendour from 1837 outside, exuberant Frank Matcham inside, remodelled following a fire in 1901. (By sad irony, Newcastle's Tyne Theatre was burned down a couple of years ago - but it too has been lovingly rebuilt.)

The authentic detail of theatrical interior decoration has to be slightly modified in the face of modern realities; for example, bright modern lights render some of the original colours exceedingly garish. *Happily*, *RHWL have found*, the skills are coming back with the demand; specialist firms for ironwork, joinery, fibrous plaster and decorative paint finishes exist in sufficient numbers to invite competitive tenders. *The craftsmen* are either elderly, or young. There is a whole missing generation in this business.

The rest of this column could simply consist of a roll call of success stories – Cardiff, Glasgow, Belfast, Birmingham, Liverpool are all places for celebration. The lights are coming back on in city centres; the restoration of the Sheffield Lyceum is just one element, albeit the key one, in a major *remodelling of its central* square.

All this has made the West End theatres look to their laurels. The Palace Theatre, on Cambridge Circus, has been the subject of a major restoration, costing in excess of £1.5m – and that was merely the exterior of the building. Now, with the hoardings and neon down, the brick cleaned and the terracotta restored or replaced with a cheaper alternative, it all looks splendid. So it should. The London division of English Heritage allotted it ten per cent of its annual budget – surprisingly in view of the wealth of the Lloyd Webber empire and the questionable use of unproven substitute materials in place of terracotta.

At the epicentre of all the activity is the Theatres Trust, set up in 1976 to ensure not merely the preservation of historic theatres, but the restoration of live theatre within them. They have witnessed an enormous revival of interest, even within the last two or three years.

It has been brought about by a combination of factors; in particular the "leisure boom" and the wish to revive dead city centres. There is grant aid available to promote tourism, to aid depressed urban regions, *to restore* historic buildings and to help in job creation. In addition, both individuals and local businesses are happy to fund anything from a seat to a whole bar as long as they can scratch their initials on it.

Different schemes have tapped different sources; the work at Wakefield Opera House was carried out with job creation labour; Sheffield will receive European Community funding of £5m (matched by the city council); and as far as rundown urban centres are concerned, where better to switch on the lights than at the Hackney Empire or the Alhambra Bradford?

There are plenty of dark houses, of course. The Coronet, Notting Hill Gate, for many years a cinema, is earmarked *for demolition, despite being* a prime catchment for audiences. Around the coast, where theatre and music hall once flourished on a regular and faithful tourist trade, there are dozens of suitable cases for treatment. Weymouth is threatened. At Southport, Blackpool, Morecambe and Margate the work goes on. Some have found their theatrical angels, others are still waiting.

Gillian Darley

SPONSORSHIP

Needs must whilst the devil drives

Some of the most intriguing sponsorship opportunities are currently being offered to business by our leading national museums and art galleries. It is often a case of "needs must when the devil drives."

The Government is short changing the museums. Their main expense is staff salaries, which can eat up 85 per cent of their budget. The Government raises their annual grant by, say, 3 per cent, on the fond delusion that wage inflation will increase by that amount. It then goes ahead and agrees with its Civil Service unions, which represent gallery attendants, a much higher award, leaving the museum directors with an impossible juggling act.

Faced with a wage bill that threatens to exceed their grant the museums are fending for themselves, none more so than the National Maritime Museum at Greenwich which was the first to go down the entrance charge road in 1985. It saw attendances dive by 40 per cent but, by mounting a series of glamorous exhibitions, most notably the £1m plus Armada show last year, it has made up the decline. More to the point it recorded a profit on the Armada, thanks to the sponsor, Pearson, foregoing £200,000 of its commitment. Now the *NMM earns 20 per cent of its* income.

Its director Richard Ormond has come up with a scheme which should appeal to companies looking for a smart new location for business entertaining. Next year the Museum completes a lengthy and costly refurbishment of its oldest building, the Queen's House, built in the early 17th century, to designs by Inigo Jones, for Anne, the Queen of James I. The house will get few visitors in the winter months so, to pay for its upkeep, the Museum hopes to raise £500,000 by letting it out to companies. For £10,000 a sponsor can time-share it, gaining access for a day a year for three years. It will provide an opulent setting for that special reception. In addition the Museum will loan out to its corporate friends some of its treasures: an attractive Van der Velde seascape would add much needed class to many boardrooms. The initial response from business has been encouraging.

In the meantime the Museum is looking for a sponsor for its *Bligh of the Bounty* show which opens in April. It is not too perturbed if no company buys into this gripping adventure. The exhibition, which cost £500,000 to mount, is already booked to go on to Australia, which is proving a marvellous source of revenue for the Museum. The last collection of its treasures sent there, built around Captain Cook, has earned it £1m commission on entrance fees. Bligh might not have quite the same popular appeal but he should justify the effort.

★

One of the largest arts appeals in *the country is galloping* down the home straight – almost £5.5m of the £6m sought from business to establish the Courtauld Institute in a grand new home, the 18th century Somerset House in the Strand, *has now been brought in*. The latest major contribution, most suitably, is from Courtaulds, which has given £150,000. Sam Courtauld, chairman of the company between 1921 and 1946, was instrumental in the foundation of the Institute.

In addition the company is placing in the anteroom of the Great Room its collection of 18th century silver, assembled in the last 40 years and one of the finest private collections in the UK. Not surprisingly the chamber will carry the Courtauld name.

The new Courtauld, with its exceptional collection of Old Masters and Impressionists, tried, like many other museums, to coax in sponsors by offering to name rooms in their honour. There have been few takers. The Wolfson Foundation, which gave £450,000, claims a room, as does a mysterious donor who offered up £300,000 to bequeath the "Edo" gallery, which has no Japanese associations whatsoever. The Butler family (Rab Butler married Sam Courtauld's only child) are leading patrons with the Sidney Butler room, but most other benefactors such as IBM with $500,000; Citibank and Arthur Andersen, with £100,000 each are not seeking permanent recognition.

★

The regions; young people; artistically starved communities – these are the buzz words for arts sponsors these days. A comprehensive programme, which embraces all aspects, has been created around a £55,000 contribution by British Gas to promote a six-week tour by English National Opera, which will take a new commission, *A Small Green Space*, (music, Ilona Sekacz; libretto, Fay Weldon), to such venues as Basildon, Barrow, Buxton and Bury St Edmunds.

This will be the only time this year that the ENO will leave the Coliseum. The tour, starting in April, is assembled by its outreach and community unit, the Bayliss Programme, and is unusual in that the opera's youth chorus will be drawn from the local community at each venue. The aim is to create a young, audience for opera. By a happy coincidence all the towns visited have a British Gas plant or office.

★

Virgin Classics has come up with the bold idea of getting other companies to shoulder the production costs on its new recordings. For a minimum of £10,000 you can buy your way into some inexpensive chamber music which will go out under the Virgin Classics label but with prominent exposure on the CD, album or cassette of your corporate name. If you want to make a bigger impact you can immortalise a new opera for £50,000.

Already one company, Fondation France Telecom, has come up with £40,000 to be linked to some Bach choral music being recorded this year for Virgin by Collegium Vocale. As well as advertising on the product, companies get the opportunity of a launch party for business entertaining, and discounted CDs, etc., to send to clients. But Virgin is coy about sharing royalties with its investing partners.

Sponsoring recordings is not new – it was the basis of "Classics for Pleasure" years ago – but it seems to be enjoying a revival. One recent backer has been the Welcome Foundation. It got together with the Hyperion label to record *Mozart with the Albion* Quartet and used the result as a free gift for shareholders.

★

Since it started in October 1984 the Government financed Business Sponsorship Incentive Scheme has generated nearly £16m from business sponsors, prompted by almost £7m from Governmental coffers. In all, 931 companies have become first time sponsors of the arts through the Scheme under which the Government provides matching cash. For long-term sponsors it contributes £1 for £3 from business.

Among recent first time sponsors to get BSIS awards are Holsten Pils, which contributed £25,000 for the first London International Comedy Festival; lift manufacturers Hammond & Champness with £1,000 for Red Stockings, a women's theatre company, which is putting on *Ladies in the Lift*, a touring production; and Inglenook-Napa Valley Wineries, which is giving £20,000 to help Free Fall Productions mount a series of American plays at the Birmingham Repertory Studio.

Janet Baker

BARBICAN HALL

Janet Baker is President of the City of London Sinfonia, so her appearance with the orchestra on Friday was in the way of family business. She chose to sing the Brahms Alto Rhapsody (with the male contingent of the LSO Chorus) in the first part, and two Mozart arias in the second – "Al desio", the ravishing long replacement for "Deh vieni" that the composer supplied for a new Susanna when *Figaro* reached Prague, and Sextus's "Parto, parto" from *La clemenza di Tito*.

To catch this great artist in London is an opportunity that is becoming, it seems, ever rarer, and so for admirers it was a concert not to be missed. All three works, which Dame Janet has long made her own, *in the flesh or on record* (or both), have now to be more carefully delivered than they used to be. The voice has less volume, less brightness of attack, requiring to be "managed" (most noticeably so in Susanna's aria, which after all lies in soprano territory); this now lends the music an air of mature thoughtfulness, even seriousness.

Obviously, Brahms benefited from the loan better than Mozart – the whole enactment of the Rhapsody was shaped with a mature musician's absolute control of mood and timing, and the poetry of the invention was revealed in a range of twilight-hued vocal colours of sublime eloquence.

In Sextus's aria, though the image of impetuous, lovelorn youth was no longer so easy to conjure up as before, the singer's command of the Classical style was still sovereign. The weighting and shaping of each phrase was dramatically inspired, and the music came to life in the chastely fiery way that remains her own.

Max Loppert

ARTS GUIDE

February 3-9

MUSIC

London

London Oriana Choir and English Baroque Orchestra, with Gillian Fisher (soprano). Mozart. Barbican Hall (Tue). 638 8891.
Symphony Orchestra of the Royal Academy of Music. Rossini, Beethoven and Tchaikovsky. Barbican Hall (Wed). 638 8891.

Paris

Ensemble Intercontemporain conducted by Peter Eotvos. Centre Georges Pompidou (Mon). 42 78 79 95.
Stephen Bishop-Kovacevich, piano recital. Chatelet (Mon). 40 28 28 28.
Orchestre de Paris conducted by Daniel Barenboim, Orchestre de Paris choir conducted by Arthur Oldham. Berlioz: The Damnation of Faust (Tue). Beethoven's Missa Solemnis (Wed). Salle Pleyel 45 63 07 96.
Detroit Symphony Orchestra conducted by Günther Herbig, with Gidon Kremer, violin. Adams, Schumann, Brahms. Salle Pleyel (Thur). 45 63 07 96.

Vienna

Münchner Philharmoniker conducted by Sergiu Celibidache. Bruckner. Musikverein (Mon).
Wiener Kammerorchester conducted by Gianandrea Gavazzeni. Wolf, Mozart, Respighi, Reger. Konzerthaus (Mon).
Konservatorium der Stadt Wien conducted by Josef Maria Muller. Musikverein (Tues, Wed).

Brussels

Stockholm Philharmonic Orchestra conducted by Paavo Berglund with James Galway (flute) and Marisa Robles (harp). Strauss, Mozart and Tchaikovsky. Palais des Beaux-Arts (Mon).
Orchestre National de Belgique conducted by Mendi Rodan with Paul Tortelier ('cello). Beethoven, Richard Strauss. Palais des Beaux-Arts (Thurs).

Antwerp

Orchestre de la Monnaie conducted by Sylvain Cambreling with Zygmunt Kowalski (violin), Joanna Kozlowska (soprano) and Jean-Claude Vanden Eynden (piano). Mozart. De Singel. 03-237 61 58.

Berlin

Detroit Symphony Orchestra conducted by Günther Herbig, with Gidon Kremer (violin). Schumann and Bruckner. Philharmonie (Mon).
Berlin Philharmonic Orchestra conducted by Riccardo Chailly with Martha Argerich (piano). Prokofiev, Bruckner. Philharmonie (Tues, Wed).

Rome

Lucia Valentini Terrani (contralto) conducted by Georges Pretres presents a recital of Respighi's symphonic poems The Fountains of Rome and The Pines of Rome, and Mussorgsky's Pictures at an Exhibition. Auditorium in Via Della Conciliazione. Recital (Fri) and conducting (Mon, Thurs.) 65541044.
Musikalische Blaser Akademie conducted by Wolfgang Sawallisch playing Mozart's quintet in E flat major, Beethoven's quintet in E flat major and Strauss's serenata in the same key. Teatro Olimpico (Wed). 393304.

Amsterdam

Netherlands Philharmonic conducted by Gilbert Varga, with Silvia Marcovici (violin). Wagner, Dvorak, Prokofiev. (Mon, Tue).
Netherlands Philharmonic under Ken-Ichiro Kobayashi with Joseph Swensen (violin). Webern, Bruch, Tchaikovsky (Wed).
Netherlands Philharmonic Chamber Orchestra under Hartmut Haenchen, with Malcolm Frager (paino). Webern, Mozart, Strauss. Beurs (Wed). 270466

Utrecht

Netherlands Philharmonic under Ken-Ichiro Kobayashi, with Joseph Swensen (violin). Webern, Bruch, Tchaikovsky (Thur).

New York

Eugenia Zukerman flute recital with Anthony Newman (piano). Couperin, Rameau. New York Public Library (Mon).
New York Philharmonic conducted by Hugh Wolff, Peter Serkin (piano). Bernstein, Ravel, Berlioz. Avery Fisher Hall, Lincoln Center (Tue) 799 9595.
Philadelphia Orchestra conducted by Ricardo Muti, with Pinchas Zukerman (violin/viola). Beethoven, Scriabin. Carnegie Hall (Tue). 247 7800.
Emanuel Ax and Joseph Kalichstein (piano) in recital with Sharon Robinson and Andre Emelianoff ('cellos), Philip Myers (horn) and Jonathan Haas and Joseph Passaro (percussion). Bartok, Schumann. Kaufmann Hall (Tue, Wed) 427 6000.
Anne-Marie McDermott piano recital. Bach, Prokofiev, Chopin, Schumann, Liszt/Paganini. Alice Tully Hall, Lincoln Center (Wed). 874 6770
New York Philharmonic conducted by Leonard Slatkin, with Mark Peskanov (violin). Stanley Wolfe: Violin Concerto (world première), Shostakovich. Avery Fisher Hall, Lincoln Center (Thur). 799 9595

Washington

David Wehr piano recital. Beethoven, John Pozdro, Debussy, Albeniz. Kennedy Center Terrace Theater (Mon). 254 9895
Chicago Symphony Orchestra conducted by Sir Georg Solti. Schubert, Shostakovich. Kennedy Center Concert Hall (Wed). 254 3770
National Symphony Orchestra conducted by Mstislav Rostropovich, Andre Watts (piano). Holst, Schubert, Beethoven, Berlioz. Kennedy Center Concert Hall (Thur). 254 3770

Tokyo

Nathalia Trull (piano). Chopin, Prokofiev, Stravinsky. Tokyo Bunka Kaikan (Wed). 265 6351
NHK Symphony Orchestra, conducted by Horst Stein, with Dmitry Alexeyev (piano). Tchaikovsky, Shostakovich, Prokofiev. NHK Hall (Thurs). 465 1780
Tokyo Metropolitan Symphony Orchestra conducted by Jerzy Makksymiuk, with Isabella van Keulen (violin). Mendelssohn, Mozart, Stravinsky. Tokyo Bunka Kaikan (Thurs). 822 0727

FINANCIAL TIMES
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Monday February 6 1989

Shaking Asia's kaleidoscope

TODAY CHINA welcomes the Year of that elusive creature, the Snake. It might seem to some Western eyes a fitting symbol. On Saturday Mr Eduard Shevardnadze, the Soviet Foreign Minister, announced that a Sino-Soviet Summit had been agreed; yesterday Peking announced that President Mikhail Gorbachev will indeed visit China from May 15-18. (It is likely the delay was caused by Chinese pressure on the Soviet Union to bring about a speedier end to the Vietnamese occupation of Kampuchea – pressure that presumably led to last night's *nine-point joint statement on* the issue.)

The Year of the Snake is an appropriate year for a Sino-Soviet summit: it represents not deviousness but a time for reflection and searching for answers. Both countries now have much in common in their struggle to reform socialism. When the meeting happens, it will be the two countries' first summit for 30 years and will *generate a whole new pattern* of Asian, if not global, relationships.

Time was when such a rendezvous would have set off Western alarm bells. Even 10 years ago the thought of a mild rapprochement between the giants was chilling. While the US then wooed China for all kinds of emotional and commercial reasons, its key motivation was to build a counterweight to Soviet might.

Domestic imperatives

All that has changed. President Gorbachev's accession to power has swung Moscow's policy from expansionism in Asia to a much-needed focus on domestic economic imperatives. Peking's insistence that Moscow should eliminate the "three obstacles" to Sino-Soviet summitry – the Soviet occupation of Afghanistan, the concentration of Soviet troops on the Sino-Soviet border and the Soviet-backed occupation of Kampuchea by Vietnam – has helped cool some red-hot trouble-spots. The glittering prizes of a meeting with Deng Xiaoping, fresh party-to-party relations and substantial economic co-operation are now almost within Mr Gorbachev's grasp.

As it happens, President Bush will be dropping in on Peking before Mr Gorbachev. But this is not an effort to pre-empt a Sino-Soviet marriage. *Mr Bush will make his visit* after Emperor Hirohito's funeral in Tokyo at the end of this month. What could be more natural than a quick trip to China to see old friends in the country where he headed the US representative office in the mid-1970s before the restoration of full diplomatic ties. He will simply be affirming Sino-US bonds.

Jakarta talks

Mr Gorbachev's China initiatives have given the Asian kaleidoscope its biggest shake in years. Heavy Soviet pressure led Vietnam to promise to withdraw its forces from Kampuchea later this year. The warring Kampuchean factions, the Vietnamese and countries of the Association of South East Asian Nations are *due to meet later this month in* Jakarta with some hope of resolving their differences on the post-Vietnamese government. Soviet troops are at this moment withdrawing from Afghanistan.

In December Mr Rajiv Gandhi, the Indian Prime Minister, paid the first top-level Indian visit to Peking in decades, to ensure that India did not get left behind in these geo-political realignments. Ms Benazir Bhutto, Pakistan's new Prime Minister, will make the same call after Emperor Hirohito's funeral and will then hurry home to greet President Bush on his way to the US.

Japan, coincidentally the cause of much of this extended funeral diplomacy, is so far the least affected. It is committed to the US as an ally and trade partner. It needs its ties with China, uneasy though they often are. Its relations with Moscow are frozen while the Kremlin refuses to return the Kuril Islands, occupied since the end of the Second World War. But, as the rest of east Asia reviews its relationships, perhaps Japan and the Soviet Union will find a way to resolve their differences and, at last, to sign a peace treaty.

The future of learning

MARKET forces in place of planning, and private money in place of public: this is the future Mr Kenneth Baker, the Education Secretary, says he wants for British higher education. Both policies have their attractions and both dovetail neatly with the general philosophy of the Thatcher Government. But the diligence with which Mr Baker will pursue either objective remains in doubt. Ideas which read marvellously in conference speeches are not always the stuff of practical politics.

This is especially true of market forces in higher education. It seems intrinsically implausible that a British Government will ever present 18-year-olds with vouchers worth several thousand pounds and tell them to go off and buy a university education. Ministers, especially Treasury ministers, like to control public expenditure. If hard-working parents have never been trusted with vouchers for the school education of their children, there is surely little chance that tearaway students will be set free, however desirable this might be.

Wrong subjects

After all, they might want to study all the wrong subjects. During the 1980s, ministers have judged that the economy "needs" more engineers and scientists. But students have actually wanted to study arts subjects and even soft social sciences such as sociology. Government planning has led to many unfilled places in engineering, especially in the polytechnics, and a shortage of places in the humanities. A desire to respect the preferences of student-consumers has figured low in the Government's list of priorities.

The irony is that the interest in vouchers has surfaced just as the University Grants Committee under Sir Peter Swinnerton-Dyer is beginning to demonstrate its mettle as a central planning agency. The UGC, through subject reviews, forced mergers and closures, is striving to put right what it regards as the weaknesses caused by the rapid and uncoordinated expansion of higher education in the 1960s and early 1970s. Top-down planning and the deliberate elimination of weak departments would not be possible under a decentralised voucher regime.

The Government's commitment to private finance is obviously stronger. But there are snags. The extent to which universities have substituted private money for public so far is greatly exaggerated. Much of the non-Exchequer cash comes from publicly financed research councils, local government and quangos. Most of the external money is tied to specific projects: only the profit is available to support universities' core activities and this is usually very small. The net contribution from external sources is minimal and negative in the case of some universities.

Tuition fees

Direct contributions from industry, charitable foundations and alumni are welcome and should be increased, but *they are not going to finance a* revival of British higher education. What about contributions from students and parents? The student loan scheme put forward by the Government is likely to bring few savings in the medium term and cost money in the short run. Some academics calculate it would be cheaper to give the money away. Top-up tuition fees are theoretically practical but *would be deeply unpopular*. Oxford and Cambridge do not want to impose them because they are already under attack for taking too many students from privileged backgrounds. And if they do not, it is hard to see many others taking the plunge.

In any case the number of 18-year-olds is going to decline by 25 per cent over the next six years. The universities and *polytechnics will be hard* pressed to maintain student numbers. To make them charge fees hardly looks the best way to boost rolls. Fees, moreover, would hinder efforts to raise the proportion of students from the lowest socio-economic groups.

British higher education does need reviving. After a decade of austerity, university teachers are an ageing, poorly paid, fractious and frequently demoralised profession. And Britain continues to educate far too small a proportion of the workforce to degree level. But market forces and private money alone are unlikely to bring about the desired transformation.

Michael Prowse and David Thomas introduce a series on UK higher education

Changing fashions in universities

For the first time in a generation, Britain's universities and polytechnics are near the top of the political agenda. Not since the 1963 Robbins Report laid the foundations of helter-skelter expansion in the 1960s and early 1970s has the feeling of an impending shake-up in the way Britain organises its higher education been so intense.

The number of students, what they should be taught, whether there should be a new funding system based on loans and vouchers, what lecturers should be paid, what resources should be devoted to research, whether private individuals and business should pay more of the costs – all these issues and more are suddenly in the melting pot.

The debate marks the end of two quite distinct phases. The first phase was one of growth in the 1960s and early 1970s and the second was of changes during the first Thatcher decade. It is now clear that whatever future is being carved out for Britain's universities and polytechnics, it will be governed neither by the old expansionism, nor, if recent statements by education ministers are taken at face value, by the policies adopted since 1979.

The Government is turning its attention from the education of 5-to-16-year-olds to that of the over-18-year-olds. Mr Kenneth Baker, the Education Secretary, speculated about a markedly different higher education system for Britain at Lancaster University last month. He suggested that it would be much nearer the model found in the US than that of Western Europe. He added that the platform for this transformation would be put in place sooner rather than later.

The Robbins Report, completed in 1963, crystallised the view that higher education was fundamental to Britain's ability to compete in a world economy where brainpower was the key input. Robbins recommended 16 new universities and a doubling of the student population to realise this.

Extra resources on an unprecedented scale were ploughed into higher education over the following 10 years, a period still seen by some academics as a golden age. But, by the mid-1970s, there was a widespread feeling that the expansion had run into the ground and the Government was viewing the growth differently.

Whitehall's specific worry was: how precisely had the expansion contributed to an increase in national prosperity? The belief grew that much of what went on in the universities, both in teaching and research, was wilfully irrelevant to the outside world.

Robbins had made some highly sceptical remarks about traditional education at British universities – single honours degrees studied in narrow depth at a few universities by a small élite, who had first attended public or grammar school. The report saw transformation of this pattern as a precondition for the expansion of higher education: "greatly increased numbers will create the opportunity to develop broader courses on a new and exciting scale."

In the event, not much changed. True, Robbins heralded the creation of the polytechnics and of technological universities such as Salford and Aston. True, too, joint honours courses, introducing some flexibility into the system, flourished at the newer universities.

But the narrow mould of British higher education was not broken by the Robbins Report. In some polytechnics, philosophy degrees were still considered essential for credibility. When the report was written the archetypal student was male, white, middle-class, aged 18-20, with good A levels and studying full-time. Such a student is still typical today, with the sole exception that the system now caters for many more female, white, middle-class, full-time students, aged 18-20 and with good A levels.

Labour ministers in the 1970s, such as Mrs Shirley Williams, began to voice their unease with the universities. They received short shrift, a response which some academics were later to regret. The Thatcher Government was much blunter. It had no time for the dons' apparent reluctance to weigh the needs of employers, to take their teaching (as opposed to their research) responsibilities seriously, *and to deal with those who* abused academic freedoms to draw a full day's pay for half a day's work.

There was a "widespread view, both in Westminster and in Whitehall, that the university system is not to be moved by reasoned argument, and that British universities are as wastefully organised and as feather-bedded as British Rail or British Steel," in the words of Sir Peter Swinnerton-Dyer giving a controversial farewell speech as Vice Chancellor of Cambridge University in 1981 – a speech which was instrumental in securing him his present job as chairman of the University Grants Committee (UGC).

Then followed the ferocious financial squeeze of the 1980s. Staff numbers were cut. Most universities struggled to make ends meet, with a handful approaching bankruptcy. Equipment and library budgets were slashed. Salaries and career openings

were held back to the point where many able graduates are now unwilling to contemplate an academic career. The proportion of university staff aged 35 or under has declined from 29 per cent to 15 per cent in the last decade.

Many vice chancellors now concede that the cuts did some good. "I think the universities needed a shock," says Professor Graeme Davies, who as the Vice Chancellor of Liverpool University, young, highly numerate and with strong business links, is typical of a new breed of vice chancellor.

Universities, he believes, are now more resilient, more enterprising and more financially aware. "The system *has been forced to look critically at* resources and priorities, and this has not been a bad thing."

The polytechnics appear to have made a better fist of the 1980s. The dominant ethos of vocationalism – giving employers what they say they need – has suited them. Their reaction to the squeeze was different from that of the universities. Rather than battening down the hatches, the polytechnics continued to recruit and have boosted their intake of full-time students by 43 per cent since 1980. "With a lot of kids banging on the door, we weren't going to turn them away," says Dr Robert Smith, principal of Kingston Polytechnic.

Their record with part-time students – most of whom are also older students – has also been impressive. These numbers have jumped 20 per cent. To do that, the polytechnics have had to devise more flexible courses, sometimes taught in the evening or at weekends, often allowing students to pick and choose from a menu of topics and to take a qualification over a long period.

But even the polytechnics have counted the cost of the 1980s in deteriorating staff-student ratios and in crumbling buildings and inadequate equipment. And polytechnic directors like Dr Smith are assuming that the squeeze will continue.

In the universities, the pain is far from over. The universities are forecasting cumulative deficits of £72.9m in the five years to 1991-92. *On top of* cuts already made, they are planning to shed 5,200 staff and may have to lose a further 3,000 to stop the upwards drift of their pay bill. The Association of University Teachers, protesting against pay levels which embarrass even its members' employers, is in the middle of an unprecedented boycott of examinations.

The cuts have turned out to be too blunt, too severe and too prolonged. Nowhere is this more clearly shown than in the record on student numbers, higher education's bottom line. The universities educated 2.8 per cent fewer UK-based undergraduates last year than in 1981-82. And they have managed this dismal performance despite roughly constant numbers of 18-20-year-olds.

In a round of speeches and briefings, education ministers have signalled that the Government will be adopting a different approach in the 1990s. Britain's record of educating just 15 per cent of its young people beyond 18 does not stand comparison with industrial competitors, such as the US and Japan, where the ratio is much higher. The poor education of British managers and the shortage of graduate engineers are just two of the chronic problems flowing from it.

From one perspective, however, the expansion is singularly ill-timed. The peaks and troughs of the demographic roller-coaster mean that there will be *a third fewer 18-year-olds in 1995* than a decade earlier. Even to stand still during the next few years, colleges will need to attract those students – mature, part-time and often without traditional academic qualifications such as A levels – who in the past have either shunned or been shunned by higher education.

Yet, given the long lead times in any educational change, Mr Baker's advisers believe that hard thinking is necessary now for sustained growth after 1995. One point is already clear: most of the additional new students who, it is hoped, will be enrolling in the late 1990s will not be receiving what has traditionally been thought of as a British university education.

Officials are already actively thinking in terms of three tiers of university. At the apex will be institutions, 12 to 20 in number, which have the facilities and resources to carry out first-rate research in most subjects. Next will come a middle tier with good research capabilities in a limited number of subjects. The third tier will be, in effect, teaching universities, doing little research. Their mission will be to maximise throughput of students, rather like lower-grade state universities in the US.

This vision is, in one sense, an evolution of an informal pecking order which already exists. It is never likely to be set in concrete: the universities' reputations will rise and fall by their own efforts. But it has been hastened by a round of subject reviews being conducted by the UGC, which is concentrating expensive laboratory-based subjects such as physics and chemistry in fewer universities.

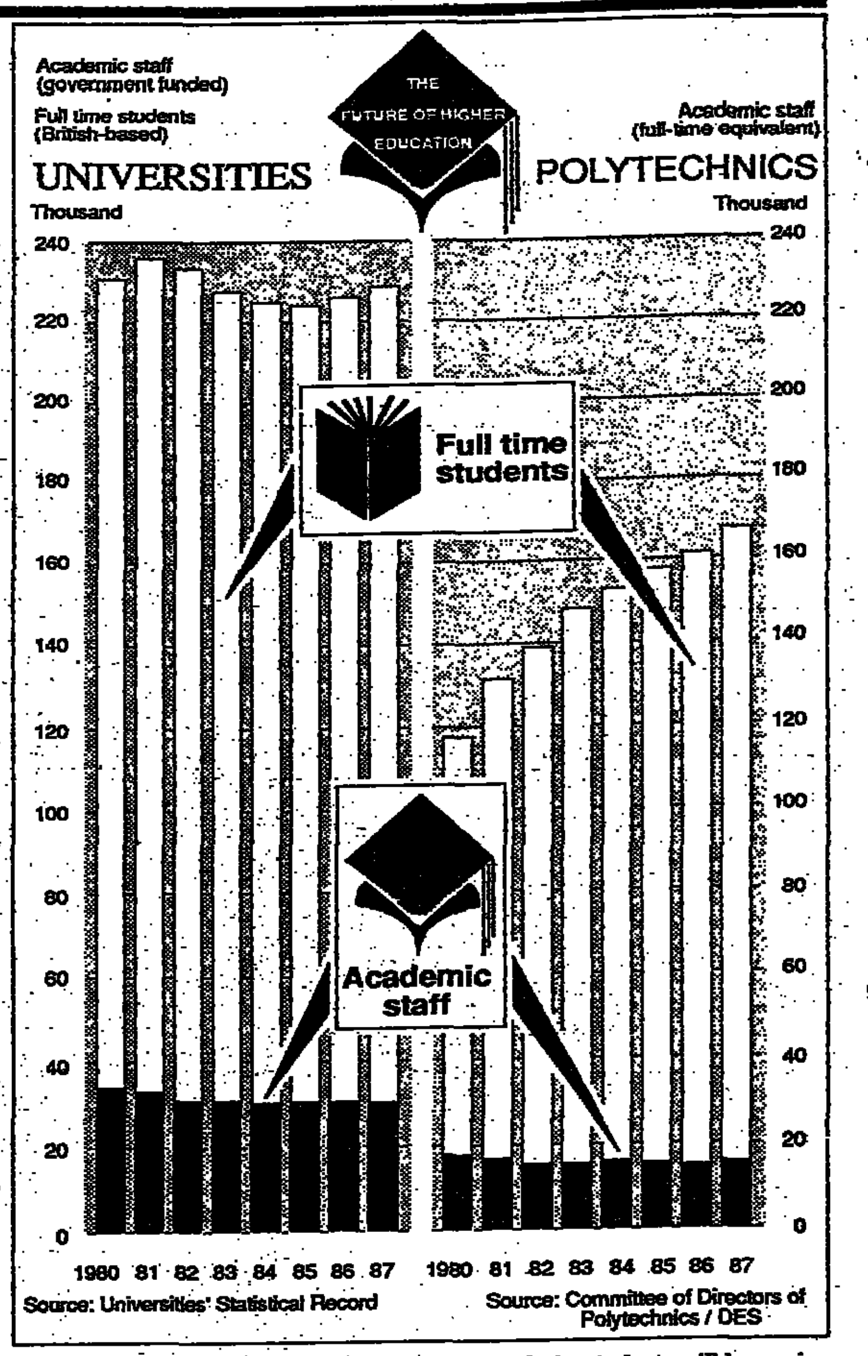
The key point is that most of the extra students flowing into the system in the later 1990s will be channelled into the lower-cost third tier. No matter what an institution is actually called, the students will be receiving an education on the polytechnic model: teaching-intensive and with little exposure to frontier research or thinking. "Some of the universities will become more like polytechnics. The labels may stay when the realities have broken down," as one senior Whitehall official put it.

This change will, it is hoped, go alongside a much greater variety of courses and types of students, at last responding to an aspect of the Robbins Report ignored 25 years ago. But the Government has already staked out one boundary to the debate, marking a final break with Robbins's guiding philosophy of making university places freely available to any student with the right qualifications.

It is clear that the public sector will not be ploughing in the finance to pay for the expansion which ministers so enthusiastically propound. At the heart of the new agenda is the plan to base higher education plans on an influx of private money. Hand-in-hand with this goes a new rhetoric of consumer choice: if students are to pay more for their education, courses should respond to their wishes, particularly for value for money.

The interest in loans, private fees and vouchers flows from these newly fashionable ideas. Just how coherent this vision is, and just how it will mesh with the strong impulse still existing to plan student numbers and course provision from the centre, remains to be seen.

Further articles in this series will appear in the UK news pages during the week.



Source: Universities' Statistical Record

Source: Committee of Directors of Polytechnics / DES

OBSERVER

French socks and shares

■ Among the many mysteries left unresolved by the official report into France's Pechiney insider dealing scandal is the burning question of Pierre Bérégovoy's socks.

The Government has repeatedly stated its determination to shed all possible light on the affair, but questions about the Finance Minister's socks, at the centre of the debate since Pierre Joxe, the Interior Minister, cited them as evidence of his colleague's honesty, are being firmly rebuffed.

Memories of the offending articles, described by Joxe as "modest", are hazy. Some political commentators recall a slight crinkling around the ankles, contrasting with the sheer splendour of Edouard Balladur's hosiery, which may have been kept up by suspenders. But Bérégovoy's predecessor at the finance ministry was noted for the quality of his tailor and widely suspected of buying his shirts from Turnbull and Asser.

In any event, the scandal appears to have called a halt to the Socialist Party's sideways drift into elegance: cashmere socialism is out.

Jack Lang may get away with wearing the suits given to him by designer Thierry Mugler. A culture minister, after all, must look the part, and France has no Princess of Wales to fly the flag of its couturiers.

Michel Charasse, the outspoken Budget Minister, will probably also be forgiven for his extravagant collection of braces. They are, for the most part, loud enough to qualify as "populist".

As for François Mitterrand, whose suits are believed to have been discreetly remodelled by Cifonelli, one of Paris's most exclusive tailors, his black felt hat and burgundy scarf are viewed as too important a barometer of the President's intentions to be sacrificed on the altar of expediency. It was the hat and scarf which gave the first reliable signal last March that Mitterrand would stand again for the Presidency, three weeks before he announced his candidature.

Accusations in the newspaper Libération that Bérégovoy himself had worn a Dior suit during the 1986 legislative election campaign, however, raised a number of eyebrows.

Whatever he wears on his feet or on his back, Bérégovoy now seems fated to wear red socks in his cartoons. Plantu, the caricaturist of Le Monde, has already added them to his portrait, and they will be hard to shed.

Real sport

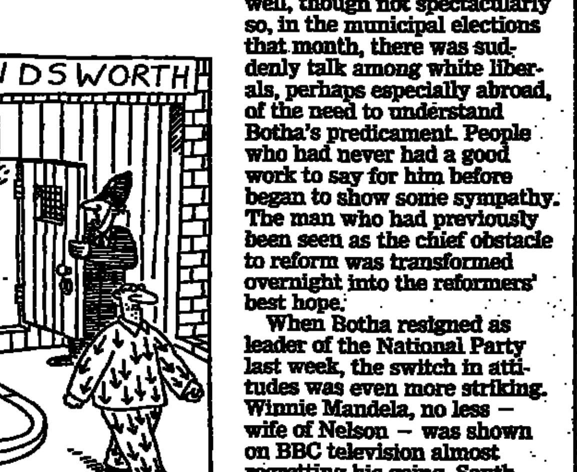
■ After the England-Scotland match at Twickenham on Saturday, Will Carling, the England captain, was interviewed on television. "It's only a game," he said. As it happened, it was not the best game that has ever been seen, but when did you last hear somebody say that?

No parking

■ There is almost no point in appealing against parking fines, even if you believe that you are in the right. A reader reminds me that, although you might normally expect to get away with it unmolested, it has never been *legal* to park on a single yellow line, even within the permitted hours. The key law is the law of obstruction, which came in long before yellow lines were invented.

There is a brief reference to this in the Highway Code. Among the small print of the "you must nots" is a line saying "park your vehicle or trailer on the road so as to cause unnecessary obstruction". No matter that there seemed not the slightest chance of causing obstruction when you parked it. If a policeman or a traffic warden says that the vehicle was causing obstruction later, obstruction it is.

Neverthless, as I wrote last week, the current practice of towing cars away, and making you pay to get them back, has become more than a trifle arbitrary. A better course might be to make more of the single yellow lines double in order to keep us out of temptation.



"He says he's a plain clothes officer."

Botha's reform

■ Odd how quickly yesterday's bogeyman can become today's liberal. Not so very long ago there was hardly a good word to be said for President P W Botha of South Africa. The tide began to turn last October when it was finally realised outside the Republic that he was under serious pressure from the right, which regarded him as a dangerous reformist.

When the extreme right did well, though not spectacularly so, in the municipal elections that month, there was suddenly talk among white liberals, perhaps especially abroad, of the need to understand Botha's predicament. People who had never had a good work to say for him before began to show some sympathy. The man who had previously been seen as the chief obstacle to reform was transformed overnight into the reformers' best hope.

When Botha resigned as leader of the National Party last week, the switch in attitudes was even more striking. Winnie Mandela, no less – wife of Nelson – was shown on BBC television almost regretting his going. South Africa had come so far under his leadership, she seemed to be saying, that his departure was bound to be a setback. And indeed that seems to be the general view.

Yet I wonder. The new fact about South Africa in the last few months seems to me that almost everyone is talking about reform. In the past almost everyone used to talk about the inevitability of disaster, and the only question was *how long it could be postponed*. That is a great change.

As for the fickleness of the commentators in deciding that there was something to be said for Botha after all, look out for someone telling you that Paraguay was better off under Alfredo Stroessner. Perhaps, of course, it was, and the General was beginning to liberalise: always the difficult bit.

Clean sweep

■ Newspaper cutting: "Birmingham is to brush up its image by using street sweepers as tourist guides. Armed with leaflets, the 26 road sweepers will get new white overalls."

Robin Pauley on the last days of Soviet presence in Afghanistan

When the Red Army leaves, the war stays

It is not all over bar the shouting. The Soviet occupation of Afghanistan may be drawing to a close but the war in Afghanistan, it seems, is not.

There are 10 more tense, frozen days to go before the February 15 deadline agreed with the United Nations for the complete withdrawal of Soviet troops. All the signs are that the exit will be completed early. After more than nine years of war with a revolving occupation force of about 115,000, there are now only a few thousand Soviet troops left in Afghanistan, most of them in the west and in the northern area close to the Soviet border, with perhaps only 1,000 or fewer in the capital, Kabul, mainly around the airport.

The Soviet Union invaded, at Christmas 1979, to prop up a wobbly Communist Government in a country which had been torn by tribal and ethnic rivalries for decades. They miscalculated the determination and fervour of Moslem peasants fired by *jihad* (holy war). The full might of the Soviet army and air force has not been able to crush the resistance which, backed by the West, has stood firm despite the loss of more than 1m lives. Countless others have been maimed and half the 15m population are now refugees.

Throughout the occupation, the Communist regime in Kabul, under successive leaders, has been unable to make any military or political headway. The Soviet Union has despaired of the enterprise and, in the face of mounting domestic hostility to a war which seemed increasingly pointless and unwinnable, Mr Mikhail Gorbachev, the Soviet President, decided to bite the bullet of defeat and military humiliation by withdrawing.

However, having spent nine years winning this victory, the Mujahideen resistance groups have occupied the nine months since the Soviet withdrawal began in throwing away each opportunity for peace.

The Soviet occupation was resisted by all but a handful of Afghans – middle-class educated urban professionals, especially women anxious to be free of Islam. For the rest, the goal of removing Soviet troops united Shia and Sunni Moslems, the majority Pustun ethnic group with minorities like the Tajiks, Uzbeks, Bazaras, Turkomans, Nooristanis, tribes like the Barakzais and the Popolzais, and as many clans as there are valleys and hills in Afghanistan.

None of these groups cares much for the others and once the Soviet forces have gone they seem set to strike up their old rivalries which the Soviet occupation so rudely, but temporarily, interrupted.

The struggle has failed to throw up one charismatic, unifying Afghan personality to be a modern equivalent of the great warrior Ahmed Shah Saddozai who laid the foundations of modern Afghanistan more than 200 years ago. This explains why, with only a few days left, there is no sign of a political agreement about the future government of the country. All attempts at foreign mediation have failed and there is a power vacuum.

Mr Eduard Shevardnadze, the Soviet Foreign Minister, arrived in Pakistan's capital, Islamabad, on Saturday in a last-ditch attempt to find a political compromise. He is planning to meet the main resistance leaders there today. The Soviet Union has accepted military defeat but is anxious not to have its political face slapped as well.

Mr Shevardnadze's demands have, not surprisingly, been quite modest. He wants the ruling People's Democratic Party of Afghanistan (PDPA) included in the discussions about the political future of the country. The Afghans plan to hold a *shura* (assembly) to consider an interim government. It has been much postponed but is now planned for Friday. Mr Shevardnadze wants a respectable representation at it for the PDPA even if the party is not ultimately included in a new interim government; in return the Soviet Union would airlift most of President Najibullah's Cabinet out of the country.

So far, Mr Shevardnadze has been rebuffed. At the last count, the planned size of the *shura* had reached 519 with no places for the PDPA and only 19 for "good Moslems" – a euphemism for non-PDPA members of the Kabul Government and low-ranking officials who have worked for the Kabul administration.

The most senior good Moslem is Asis Zahir, Minister for Local and Rural Government, and it is around him that a good deal of rumour-mongering is focused. Some form of coup or defection by the Afghan Army in Kabul now seems the only way to break the deadlock and avoid a civil war in which thousands more would become casualties.

If there were a "mock" coup, one argument runs, the Soviet Union could remove the Najibullah group and instal a new Cabinet under the "good Moslem" Asis Zahir. It would then be difficult for the Mujahideen leaders to resist pressure from the Soviet Union, supported by Pakistan, Iran and Saudi Arabia, the Mujahideen's most important Moslem backers, to find a political compromise for a *shura* which would enable all sides to save some face.

But nothing in Afghanistan is ever as easy as theories or rumours. Apart from anything else, the Mujahideen cannot agree among themselves. The majority Sunnis are divided into seven main resistance groups with political leaders based in exile in Pakistan, where there are 3.5m Afghan refugees. These seven groups dislike each other with a religious fervour; some want the exiled King Zahir Shah brought back, some want a fundamentalist government in Kabul, others say they will fight on against such a government. The seven leaders, some of whom had no authority before the Soviet invasion and may have none after it is over, are at odds with many of their own military commanders inside Afghanistan.

The minority Shias are divided into eight main groups and their leaders are based in Iran, where there are 2m Afghan refugees. They too cannot agree on anything except that they want a lot more seats at the *shura* than their 15 to 20 per cent share of the population would warrant. This, they say, is to prevent a repeat of the situation before the Soviet occupation when the Sunnis repressed and persecuted the Shias. Some of the Pakistan-based Sunnis say they will fight any interim government constructed by a *shura* which gives even one of its 519 seats to a Shia.

Things are not looking good. Not surprisingly, the number of Afghans fleeing to Pakistan and Iran is increasing in the face of this political bickering.

The Mujahideen may have thrown away the last chance to stop the bloodshed and get Najibullah's "puppet" regime removed to exile in dachas on the Black Sea and villas in India, all of which are ready and waiting.

Unless Mr Shevardnadze achieves a breakthrough before he leaves for India later today, the Soviet Union may well drop its plan to take President Najibullah out, opting instead to leave him to fight on, supplying his forces with whatever they need, for as long as possible, from the Soviet Union.

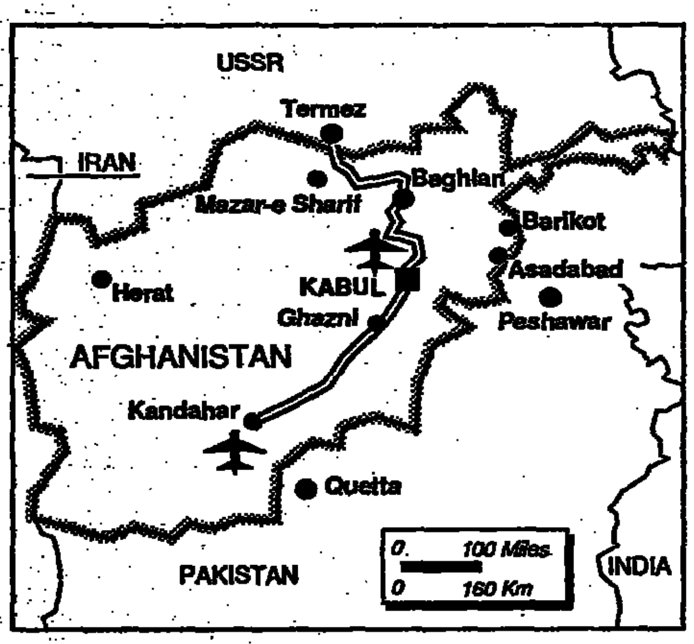
How long the Kabul regime could last under such circumstances is another matter. Kabul is the key. The resistance controls the main roads in from Pakistan and Jalalabad in the east and from Kandahar in the west.

The Soviet Union is withdrawing by bringing men and equipment to Kabul and then heading north along the Salang Highway, through the Salang Tunnel, and north across the Oxus River to the Soviet Union. Others are going by air from Kabul Airport. The combination of snow, ice and guerrilla attacks has made the Salang convoy slow and perilous. The guerrillas are likely to capture the highway immediately after the Soviet exit which will enable Kabul to be besieged. If they also take the airport, no food, fuel or supplies will reach the city, the population of which has swollen from 1m to 2.5m during the war. Even now there are serious food and fuel shortages.

There are two signs that the Soviet leadership does not believe Najibullah will survive long after February 15. The first is that the road outside the Soviet Embassy has been cleared of trees and widened for what looks remarkably like an emergency air strip.

The second is that the northern Afghan town of Mazar-e-Sharif, close to the Afghan border, is being used as a second, increasingly fortified, capital. Families of government members and officials and of the intelligence forces have been moved there. So have a large number of Afghan soldiers. It is not clear that all withdrawing Soviet troops have crossed into the Soviet Union yet; many are thought to have broken their journey in Mazar-e-Sharif to help fortify it and to leave behind much of their arms and equipment. If Najibullah decamps and fights from there, supported from the Soviet Union, the spectre of partition would appear – and the north has most natural resources including all the natural gas and much of the productive agricultural land.

Within days now, all the Soviet personnel – except a few military advisers and diplomats – will be gone from Afghanistan. They will be relieved to be out and the rest of the world will be pleased to see them out. But for the Afghan people the prospect of death, destruction and tragedy looks little changed.



LOMBARD

That trade-off comes again

By Samuel Brittan

THE THOUGHTS which follow take off from a fascinating article on this page last Wednesday by Terry O'Shaughnessy of King's College, Cambridge, (Trying to arrive at a reasonable trade-off).

His thesis is that at any one period there is a choice or trade-off between the current balance of payments and the unemployment rate. In other words, the lower the number unemployed, the bigger the current payments deficit.

Unfortunately, he suggested, the position of the trade-off line has deteriorated over the years. Whereas a current account balance could be achieved in the 1960s at around half-a-million unemployed, in the 1970s it required over a million, and around three million in the 1980s.

My first reaction was that it all seemed very familiar, as I had known and lived with the same structure of reasoning for a very long time. For the O'Shaughnessy trade-off is almost exactly like the Phillips curve suggesting a short-term choice between unemployment and inflation. In both cases the choice turns out to be deceptive.

Pursuing the subject further, Friedman and other neo-classical economists argued that attempts to boost demand to maintain unemployment below a critical level led, not merely to inflation, but to accelerating inflation, and were therefore unsustainable. If the inflationary pressure is siphoned off into a payments deficit, that deficit would take off into the stratosphere for similar reasons.

Indeed, it was this "accelerationist" reasoning, rather than anything of a technical monetary nature, which convinced me that the post-war version of Keynesian demand management was deeply flawed and that the roots of unemployment would have to be tackled from the labour market or supply side.

Be that as it may, the neo-classical non-accelerating inflation unemployment rate (NAIRU) is almost identical with O'Shaughnessy's sustainable rate, except that it is defined in terms of inflation rather than the balance of payments. If one then remembers that that rate, as defined by both schools of thought, has drifted badly upwards since the 1960s, the analogy is almost complete.

A common-sense observer might at this point exclaim that the British economy has all along had the same underlying problem, sometimes expressed as accelerating inflation, sometimes as a deteriorating current deficit and sometimes as excessive unemployment. The trade-offs undoubtedly worsened up to at least the early 1980s and, whatever one's hopes of supply side improvements, the conclusive test is yet to come.

But the matter cannot be left there. If the balance of payments were the main obstacle to full employment, all we would need to remove it would be a monetary union containing both surplus and deficit countries. But to say this would be to oversell, and therefore discredit, the desirable goal of European monetary union. Indeed the Cambridge interpretation cannot explain the upward drift in unemployment in surplus countries like Germany, which ought on that theory to be bursting with overfull employment instead.

If the current deficit really is a problem why cannot we remove it by the textbook combination of expenditure reduction and real depreciation? If we can, Mr O'Shaughnessy's problem does not arise.

If we cannot, it is because at full employment there would be successful resistance to the real wage cuts implied, and the process could only succeed at two or three million unemployed, or whatever the NAIRU now is. Thus it is the resistance of labour market institutions to market clearing real wages which constitutes the obstacle to full employment.

I am sorry that there have been some thorns in my proffered olive branch. But the Cambridge blockage on the subject of pay and jobs and the obsession with the extremely superficial problems arising from frontiers and currencies is an obstacle to recognising the common ground that undoubtedly exists.

LETTERS

'Free markets are fine among equals'

From Mr Peter Minton.

Sir, UK companies manufacturing technological products are likely to be a primary target of continental European and north American predators in the run up to 1992. For their European competitors they provide an easy access to our domestic markets – for others an easy way into the European marketplace after 1992.

Allen Sykes's article pointed out the bid-proof nature of the important European companies (January 4); this is certainly true of those in the technological area of business. So the rationalisation which the European electronics and electrical industries so badly need will almost certainly come from the purchase of UK companies by continental groups.

The joint ventures being signed at present are hardly the meeting of equals. Will they – as Christopher Lorenz suggested recently in your Business Column – end in tears for the UK partners?

The UK is the only developed country which has no governmental strategy to protect and enhance the technologies on which its future strength depends. Free markets are fine among equals, but there are no genuinely free markets in technology other than in the UK. So UK companies such as GEC, Racal, STC can be bid for, but have almost no opportunity to bid for their opposite numbers in, say, West Germany.

1992 could therefore see a large part of the manufacturing element of the electronic and electrical sectors gone.

As Ian Tegner says (Letters, January 27), this will create a dilemma for institutional investors. If 1992 is going to mean something, it should be that we look at pan-European sectors – for example, investing in CGE not as part of a French, but as a constituent of a European electrical, portfolio.

Peter Minton,
Sheppards,
1 London Bridge, SE1

From Mr Allen Sykes.

Sir, My article (January 4) did not, as Mr Ian Tegner suggests (Letters, January 27) comment on the average level of efficiency of UK companies compared with their continental counterparts. I merely said that the continental practice of high leverage and equity holdings by banks is a formidable restraint on managerial inefficiency.

I argued that the comparative inefficiency of any bidder should be justification for referral to the Monopolies and Mergers Commission if the bidder is bid-proof. If a bidder is and will remain efficient, what economic detriment does the UK or the European Community suffer from permitting such a bid to proceed? It is difficult to see how much further it is possible to go without making the criteria for permitting bids to become largely subjective – that is, based on non-economic criteria such as "fairness."

Mr Tegner's point that the bid-proof nature of so many of our EC competitors makes rationalisation for the single European market something of a one-way process, potentially to the UK's serious detriment, is an interesting generalisation with which I have some sympathy. The question to be asked is: how many UK companies are or have been precluded from important rationalisation by their potential takeover targets in Europe being bid-proof? Some objective evidence is urgently needed on this critical point.

Supposing this to be a material issue, what solution can be proposed that is not worse than the problem it seeks to remedy? Careful thought is needed on this if a case is to be made for modifying government policy. But any change must pass the essential test of promoting the long-run efficient use of UK (or UK-owned) assets.

Allen Sykes,
31 Charles II Street,
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Relationship with the bank is a two-way street

From Mr Paul Spencer.

Sir, "Loyalties in banking" (leader, January 18) very fairly represents the current debate on banking relationships, and was responded to by Mr John Grout (Letters, January 27).

Having read Mr Grout's views on relationship banking I came to the conclusion that what advantage he gave his "relationship bank" was minimal, and yet he expects complete loyalty in return.

No wonder banks believe, as your leader writer says, that companies want it both ways.

In my experience a bank still looks very carefully at its relationship with a customer: how far back it goes; quality of the involvement; seniority of the contacts and, of course, how extensive the relationship compared to other banks. But over the last few years most companies have become more transaction orientated, and this has forced banks to look not just at the relationship but also at the returns that relationship brings.

In an acquisition a bank has to compare this with the relationship it may have with an acquirer company and the returns it could make for its shareholders (banks have these too) through financing the acquisition, plus the additional business it might get if the bid is successful.

Banks must wonder what people mean when they talk of loyalty in acquisitions. The bank's prime job is to provide finance. It is the shareholder's responsibility to determine the merits or otherwise of the acquisition.

Companies performing well for their shareholders will rarely have problems with bank relationships. Companies not performing so well should not be surprised or offended when banks, observing all the correct procedures on confidentiality of information, do what they are there for, and provide finance.

Paul Spencer,
Hanson,
1 Grosvenor Place, SW1

Who's for the slammer?

From Mr Henry Law.

Sir, With London's railways suffering from an acute shortage of capacity, why is British Rail planning to replace slam-door suburban stock by new trains with sliding doors?

It is generally acknowledged that these sliding door models will compound the problem; reducing passenger capacity and adding to congestion at stations.

Just before nationalisation of the railways, when trains of 1920s vintage were due for replacement, the Southern Railway contemplated the introduction of sliding door trains, but after careful consideration opted for a more modern version of the traditional slam-door train.

It was recognised then that slam-door trains were unrivalled for getting passengers on and off quickly at busy stations; for providing as many passengers as possible with a seat; for providing something to hold on to for passengers who did not get a seat, and for providing convenient places to put their coats and bags.

Recent studies by British Rail have confirmed this. Passengers are accustomed to these trains, and a tradition of usage has grown up around them. Changing the design of the trains is liable to cause passenger resentment, and could result in the rail system becoming clogged up.

Further advantages of slam-door stock are that, being mechanically more straightforward, it is less expensive than sliding-door stock to build and maintain, and more reliable in service.

The obvious disadvantage of slam-door stock is that passengers open doors on moving trains, sometimes causing accidents. But sliding-door trains are a technological sledgehammer when it comes to cracking this particular nut.

All that is required is some form of centralised locking, under the control of the train crew. It should not be difficult to devise an inexpensive and robust safety lock which would do the trick. It could then be fitted to existing carriages with slam doors, many of which are going to be around for another 15 or 20 years.

Could it be that British Rail's managers are opting for sliding-door stock through an excessive concern for image, and a desire to be seen to be using the latest technology?

Henry Law,
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East Sussex

FINANCIAL TIMES
Monday February 6 1989

Janet Bush on Wall Street

A balancing act for the task force

TESTIMONY on what should or should not be done about leveraged buy-outs and hostile takeovers has been flooding Congressional news wires since the inauguration. Less well publicised is the debate at state level and within the pension fund industry whose billions have been a crucial component of LBO pools such as the war chest of Kohlberg Kravis Roberts.

Many states issue guidelines to the managers of their public pension funds on takeovers, proxy fights and restructurings.

In New York, a task force is examining the investment of public and private pension funds in corporate takeovers and two public hearings will be held in March.

The furore over leveraged buy-outs has provoked a wider debate about the regulation of pension fund investment.

The concern is two-fold. First, the task force wants to find out whether leveraged buy-outs, and therefore pension fund investment in LBO pools, is damaging to the local economy.

Mr Vincent Tese, economic development director to New York state Governor Mario Cuomo, said that concern in New York was heightened when rumours surfaced of a possible takeover of Corning Glass, a major employer in a part of the state which suffered very high unemployment in the last recession.

Secondly, the state wants to examine ways in which pension funds could be encouraged to invest more conscientiously in the future of the state's infrastructure, research and development and job creation.

In New York, around $1bn of a total $46bn is earmarked for leveraged buy-out funds. About $500m of that was invested with KKR and some in a Forstmann Little LBO pool.

Less than desired is being invested in the future of the state economy. In 1987, the state legislature enacted the so-called basket clause which gave trustees leeway to invest up to 7.5 per cent of their assets in a diversified portfolio including investments which helped the state economy.

"So far, none of the funds has even come close to achieving this goal. It is clear the method of allocating funds needs review, and new devices must be found to increase the use of the basket clause," Mr Tese said.

At the centre of the pension fund debate is ERISA – the Employee Retirement Income Security Act of 1974 – which requires fiduciaries to manage pension plan investments prudently, and solely in the interest of participants and beneficiaries.

Mr Ira Millstein, principal consultant to the task force and chairman of the Board of Advisors of the Centre for Law and Economics at Columbia Law School, believes that, eventually, ERISA may even be amended to make sure the right balance is struck on where pension fund assets are invested.

Last week, the Labor and Treasury departments issued a statement interpreting the duties of pension fund trustees under ERISA towards takeovers which offered a premium to the market price. Some pension fund trustees had felt it was their duty automatically to accept such offers to capture the premium.

The Treasury and Labor departments said this was not the case but that fiduciaries had a duty to ensure the "economic best interest."

In other words, fiduciaries should take a fairly close and analytical look at the merits of a takeover proposal and make an active decision on whether to support or reject the plan.

The implication is that pension fund support for a takeover simply because it offers shareholders a premium may not be forthcoming if there are judged to be long-term risks to the company.

ERISA is also being looked at in light of the paucity of investment in the longer-term health of local economies.

Mr Millstein said that academics and regulators are now wondering whether ERISA draws the strings too tight.

Its requirement that fiduciaries must act primarily in the interests of beneficiaries discourages investment in the local economy in, for example, infrastructure projects offering a less certain return, which can often only be realised in the longer-term.

"There is a feeling that the balance between straight investing for the maximum return and investing for longer-term, indirect economic benefits is slightly skewed." Mr Millstein said.

Shevardnadze to meet Afghan rebel chiefs

By Christina Lamb in Islamabad and Quentin Peel in Tashkent

MR Eduard Shevardnadze, the Soviet Foreign Minister, has extended his visit to Islamabad in order to hold talks today with Afghan resistance leaders. The surprise talks represent a final attempt to reach a peaceful settlement in Afghanistan and avoid a prolonged civil war after February 15 deadline for the Soviet troop withdrawal.

Mr Shevardnadze's rearranged schedule will enable him to meet Dr Ali Akbar Velayati, the Iranian Foreign Minister, and Mr Yuli Vorontsov, the Soviet Deputy Foreign Minister and Ambassador to Kabul. Both flew into Islamabad last night from Tehran with Mr Sibghatullah Mojadiddi, head of the Pakistan-based Afghan resistance alliance.

Yesterday a mass of Soviet armour, artillery and trucks loaded with soldiers assembled in the biting cold at the Afghan border town of Hairatan on the Oxus River bank, ready for a ceremonial crossing back to Soviet territory today.

A big reception at the Soviet border town of Termez is planned for the returning soldiers with full coverage on national television, as the Soviet authorities are determined to put a brave face on their military debacle.

However, their departure leaves President Najibullah's regime tottering in Kabul, battered by rocket attacks on the suburbs and a food blockade of the capital enforced by the Mujahideen guerillas.

The Soviet news agency Tass reported yesterday: "Kabul is now effectively under martial law. For the purpose of ensuring security the armed units of the people's militia and volunteers stepped up control over the deliveries arriving in the capital and are searching vehicles."

In meetings yesterday with Ms Benazir Bhutto, Pakistan's Prime Minister, and Mr Yaqub Khan, Pakistan's Foreign Minister, Mr Shevardnadze apparently asked the Pakistani Government to sign a reaffirmation of the Geneva accords, prohibiting third party intervention in Afghan affairs. He also asked the Pakistanis to sign an agreement that all external sides stop arming their respective allies in the Afghan conflict.

Pakistan refused. Ms Bhutto could not agree to such requests without risking a rift with two key influences on Pakistan's Afghan policy – the Pakistani Army and the United States.

Rodriguez discourages the cynics

Ivo Dawnay assesses the prospects for democracy in Paraguay

The departure of Gen Alfredo Stroessner from Paraguay might, but only might, mark the final passing of the dinosaur era of Latin American dictatorships. General Andres Rodriguez, who seized power in the early hours of last Friday, has vowed to respect human rights and restore democracy to the landlocked republic of 3.5m people, after 34 years of international ostracism of one of the most reviled regimes on the continent.

But while most of the population in the sleepy, village-like capital of Asuncion seemed to welcome the end of the Stroessner years, in diplomatic circles at the weekend there remained scepticism over the depth of the new junta's commitment to true democracy.

This hesitancy rests on the suspicion that the bloody events of February 2 represent not a genuine redivision of the Paraguayan cake, but merely a transfer of the cake knife between the two warring factions of the long-ruling Colorado Party.

"It is", said one seasoned observer, "not so much a *coup d'état* as a *putsch*." Gen Rodriguez has been doing his best to discourage this cynicism. In his sole explanatory speech since the takeover, he delivered ideological goods made-to-measure for a doubting international audience.

It called for reconciliation with the Church, an end to privileged elites, the restoration of long-abused human rights, party pluralism and freedom of speech.

Barely 24 hours later, however, a report by a CBS television crew was censored for referring to deaths in the fighting – believed to exceed 250 – and to alleged but unproven links between the new leader and drugs trafficking.

Despite Gen Rodriguez's professed aim to reunite the ruptured Colorado party, his first Cabinet appointments have all come from his traditionalist base. Hundreds of militants across Paraguay have been arrested, with Mr Sabino Montanaro, the former Interior Minister, fleeing to asylum in the Honduran embassy.

Rodriguez: new leader for Paraguay

Mr Luis Maria Argana, a former chief justice once touted as a potential civilian candidate for the presidency, now appointed foreign minister, said yesterday that elections for Congress would be held within 90 days, followed by presidential polls six months from now.

"We will hold elections within three months. They will be free, democratic and provide equal opportunity for all," he said.

Although there is an embryonic four-party coalition of opposition parties – the so-called National Accord – it seems highly unlikely that the Paraguayan people, having never experienced true democracy, will feel inclined to deprive Gen Rodriguez of his newly-won presidential sash at the polls.

Mr Domingo Laino, the principal opposition leader, has called upon Colorado to join a "common fight for liberty, bread and economic and social reform".

But his hopes of defeating Colorado, already promising to tread a similar path, look slim indeed.

More clearly substantiated are the historic motives behind the coup. Since 1984, the Colorado Party has suffered a catastrophic schism between the militant faction, led by Mr Mario Abdo Benitez – ex-President Stroessner's political secretary – and the traditionalist establishment.

Gen Stroessner, weakened by ill health, worsened his position by provoking discontent in the armed forces, already seething over wages.

A month ago, he not only promoted his unpopular son, Gustavo, to a full Air Force colonelcy – raising fears that he was the chosen heir – but at the same time sacked many mid-ranking army officers without retiring the old guard generals.

It was a clash with Gen Rodriguez, commander of the Armoured First Army Corps quartered just outside the capital, that sealed the dictator's fate.

A long-time Stroessner loyalist and one of the captains who took part in the original 1954 coup, Gen Rodriguez had been a favourite son, entrusted with consolidating the armed forces as his boss took an iron grip over the party.

Along the way, his youngest daughter, Marta, had sealed the link between the families by marrying Stroessner's son, Freddie.

Gen Rodriguez, 64, is now one of the richest men in Latin America, with hundreds of thousands of hectares in cattle farms, a major import-export business, a jewellery company and a foreign exchange house said to be earning between $20,000 and $30,000 a day.

As commander of the cavalry regiment, the general also controls the frontiers of a nation famous for its unofficially sanctioned contraband operations. An estimated 35,000 of Paraguay's 85,000 cars have been stolen from abroad and other operations range from luxury goods, gun running and inevitably, drugs.

No firm evidence of involvement by Gen Rodriguez in illegal activities has ever been found. Nevertheless, the Paraguayan ruling elite has long been "sweetened" by Gen Stroessner by the takings from the country's off-the-books activities.

According to rumours in Asuncion's gaudy neo-classical suburbs, the final breach between the old general and his protégé came 10 days ago when Marta finally declared she would divorce the young Stroessner.

At the same time, under pressure from his militants to remove the powerful traditionalist First Corps commander, the dictator demanded that Gen Rodriguez accept either the ministry of defence cuts or resignation.

Within days, the cavalry had saddled up. After failing in the first attempt to capture their quarry as he left the downtown home of a mistress, they finally pinned Gen Stroessner down for a bloody six-hour last stand at his loyal Escort Regiment's barracks.

As the excitement dies down, the events of the last few days look more like the toppling of an old-fashioned tyrant by an old-fashioned coup – an internal family squabble, with Gen Stroessner in the role of King Lear, brought down by an old man's vanity.

Storehouse chief hits back at Edelman

By Maggie Urry in London

MR Michael Julien, group chief executive of Storehouse, the British retail group, has responded fiercely to criticisms from Mr Asher Edelman, the New York-based arbitrageur who has built up a 6.1 per cent stake.

Mr Julien threw down a "shut up or put up" challenge to Mr Edelman. But he argued a break-up or leveraged bid for the group was not feasible in the present gloomy environment for UK retailing. He said Mr Edelman was distracting management at a critical time and was disrupting staff morale.

Mr Edelman has suggested that shareholders would gain if the group were sold as a whole or in parts. He has attacked Mr Julien's management of the company, where profits are set to fall sharply. Mr Julien joined the group in June last year.

"There is no way we are going to be bullied," said Mr Julien. He has a six-inch thick dossier on the American's past activities in his London office.

He said Mr Edelman's tactics were "pretty predictable – he likes to obtain the maximum influence with the minimum investment." Mr Julien added, "if he wants a say in this company's affairs he has to bid for it."

Mr Edelman, whose interest in Storehouse was first revealed in December, has suggested that parts of the group should be sold off or that the company should be sold as a whole, possibly to the management. Storehouse, which is chaired by Sir Terence Conran, includes BhS, formerly British Home Stores, Mothercare, which caters for mothers and children, Richards, the women's fashion chain, and Habitat, the home furnishings retailer.

Mr Julien believes that Mr Edelman and his advisers, which include BZW, the investment banking arm of Barclays Bank, have been "touting the brand companies around at ridiculous prices and found no takers. There are not too many takers for BhS either," he added. He said he had a written assurance from the chairman of Barclays that the bank would not finance a bid for Storehouse.

In a letter to Storehouse last month, Mr Edelman proposed the sale of all the businesses except Habitat and the Conran Design company. More recently he has been quoted as saying everything should be sold except BhS. That change of plan, suggests Mr Julien, shows he has been unable to line up a buyer for BhS.

Mr Julien referred to a recent circular from Phillips & Drew, a stockbroker, which said the net asset value of Storehouse ws likely to be between 150p to 155p a share compared with Friday's closing share price of 192p.

Phillips & Drew went on to say that a leveraged buy out could just work at 191p a share but that would leave no profit for the bidder and would not give the shareholders a premium. The broker concluded that "a leveraged buy-out could not be justified at the current price [then 195p] and there is insufficient value in a break up bid."

Mr Julien said he could not endorse the figures, though it was apparent he agreed with the broker's argument. He dismissed the idea of a management buy-out as "unethical".

Analysts have been cutting their profit forecasts for Storehouse's financial year to end March. On Friday Warburg Securities, the group's own broker, slashed its estimate from £87.5m ($153m) to £70m, against £107.3m the previous year.

Mr Julien refrained from commenting on current trading, except to say that conditions are "bloody tough". However, he did not attempt to deny the general direction of brokers forecasts.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	15	59	Dubrovnik	R	11	52	Malta	F	14	57	Rhodes	S	16	61
Algiers	C	13	55	Edinburgh	C	07	45	Manchester	C	08	46	Rio de J'o	C	33	91
Amsterdam	C	10	50	Faro	S	17	63	Manila	F	32	90	Rome	C	13	55
Athens	F	14	57	Florence	F	09	48	Melbourne	S	22	72	Salzburg	S	05	41
Bahrain	F	16	61	Frankfurt	R	-2	28	Mexico City	C	24	75	San Francisco	C	10	50
Bangkok	F	32	90	Funchal	C	16	61	Miami	F	25	77	Seoul	F	05	41
Barcelona	S	12	54	Geneva	C	01	34	Milan	Fg	03	37	Singapore	C	31	88
Beirut	F	15	59	Gibraltar	S	15	59	Montreal	C	-17	01	Stockholm	R	04	39
Belfast	C	07	45	Glasgow	F	07	45	Moscow	F	03	37	Strasbourg	C	04	39
Belgrade	C	00	32	Guernsey	C	11	52	Munich	S	08	46	Sydney	C	21	70
Berlin	R	07	45	Helsinki	R	04	39	Nairobi	F	24	75	Taipei	C	19	66
Biarritz	S	13	55	H. Kong	F	16	61	Naples	F	13	55	Tangier	S	16	61
Bombay	S	29	84	Innsbruck	S	05	41	Nassau	F	28	82	Tel Aviv	F	17	63
Bordeaux	S	12	54	Inverness	F	06	43	New Delhi	F	26	78	Tenerife	S	21	70
Brussels	C	08	46	Islamabad	C	17	63	New York	C	-1	31	Tokyo	F	12	54
Budapest	F	04	39	Istanbul	F	09	48	Nice	S	14	57	Toronto	F	-7	19
B. Aires	-	-	-	Jakarta	R	31	88	Nicosia	F	12	54	Tunis	S	18	64
Cairo	F	17	63	Jersey	C	11	52	Oporto	S	14	57	Valencia	C	11	52
Cape Town	S	26	79	Jo'burg	R	23	73	Oslo	F	08	46	Venice	S	07	45
Caracas	C	24	75	Lima	F	28	82	Paris	C	07	45	Vienna	S	06	43
Casablanca	S	17	63	Lisbon	F	17	63	Peking	F	03	37	Warsaw	C	01	34
Chicago	C	-14	07	London	C	12	54	Prague	F	04	39	Washington	C	-2	28
Cologne	R	06	42	Los Angeles	C	13	55	Reykjavik	Sn	-7	19	Zurich	S	03	37
Copenhagen	F	05	41	Luxembourg	Fg	00	32								
Corfu	R	16	61	Madrid	F	11	52								
Dallas	Sn	-9	16	Majorca	C	13	55								
Dublin	F	10	50	Malaga	S	15	59								

Readings at mid-day yesterday

C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Anti-dumping levy row

Continued from Page 1

the Commission for damages. He is appealing against the UK fine and considering an appeal against the Dutch ruling as well. Mr Ravel argued that he had merely taken Hyundai's ships on a time charter, normal practice among shipping lines, and that he also planned to increase freight rates on the route. "The Commission has been pushed by these large shipping lines who just want to try to defend their monopoly," he added.

The Commission does not plan to intervene in this dispute officially, leaving it up to national courts to decide. The latter will probably refer it to the European court, the final arbiter on EC law.

Mr Alan Bott, chairman of the Australia Europe Conference, the organisation of EC shipping lines which launched the original anti-dumping action against Hyundai, claimed Sofrana was acting on the South Korean company's behalf. "Their fingers are now well and truly caught in the legal mangle," he said.

THE LEX COLUMN

A taxing tax for Brussels

The high-minded debate between Mr Lawson and the Eurocrats on the ticklish question of an EC-wide withholding tax might suggest that a major matter of principle is at stake. On one side, Mr Lawson protests that creating new encumbrances is inconsistent with Europe's great efforts to bring barriers down. The other side argues that since capital controls are being finally eliminated next year, remaining differences between taxes in member countries need to be ironed out to ensure level playing fields and so forth.

In fact, last week's proposal from the Commission recommending a minimum withholding tax of 15 per cent has little to do with principles of any sort. Indeed, the Commission only agreed to examine the issue in the first place as a quid pro quo to get France (and to a lesser extent Italy and Denmark) to agree to lifting capital controls. With the patchwork of withholding tax now ranging between zero and 50 per cent across member states, individual positions are proving hard to reconcile, and already the initiative is well behind schedule.

France, which has one of the highest rates of withholding tax in the Community, fears an outpouring of the money of its wealthy bourgeoisie when controls are removed next year. The UK, meanwhile, is concerned for the popularity of London as a financial centre if Europeans start paying withholding tax on UK bank deposits and other presently exempt instruments. Germany, which has already taken plenty of stick for the introduction of a 10 per cent tax, is not keen to move to a higher rate again.

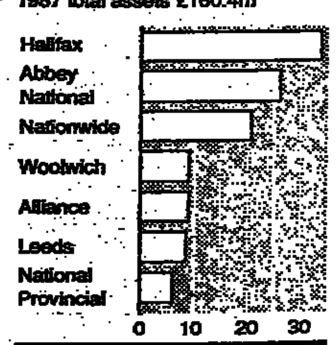
The French concern is a real one. Mr Lawson may argue that removing controls does little to affect capital flows, but the loss of some DM 30bn in long term capital last year from Germany to havens like Luxembourg suggests otherwise. The logical solution to the French problem might be to apply an identical tax to interest payments everywhere, but that would be impossible, and undesirable too. It might stop the tax evader, but would severely disrupt the much larger institutional money markets. Moreover, erecting barriers throughout Europe would simply send all the tax-shy money in the EC to Switzerland and to other non-EC monetary hideaways.

It is therefore no surprise that the proposal to be presented to Europe's finance ministers is a weak compromise, and as such scarcely looks effective. The suggested minimum rate still leaves France at a great competitive disadvantage, while a variety of important exceptions – including Euromarkets and the wholesale money markets – can only undermine the whole thing further. It seems any semi-alert tax dodger could avoid paying withholding tax altogether; and the only investors whom the rules might catch are those who fondly insist on the superior quality of European domestic markets.

Despite their lack of potency, the present proposals have little chance of gaining the required unanimous support, with the UK and Luxembourg opposed. Perhaps the UK can be bought off with an even weaker scheme, leaving Luxembourg too small and weak to be the sole spoiler. But such a package would quite fail in its initial purpose, becoming just another headache for the European tax man.

UK Building Societies

1987 total assets £160.4m



Building societies

Next Thursday's meeting of the UK's Building Societies Association to decide whether Abbey National should be allowed to continue as a member will be far more important for the rest of Britain's building societies than for the Abbey itself. The pushy commercial ways which led up to the decision by Britain's second-biggest to turn itself into a bank have caused an unusual amount of soul searching in a business which has remained largely untouched for more than a century. What better way to signal the error of its ways than blackballing it from the building society club?

Europe is littered with examples of successful mutually-owned financial institutions and building societies have every right to differentiate themselves from commercial banks whose ability to waste customer's money in the pursuit of so-called profit is embarrassing. Assuming that the Abbey gets permission to convert to plc status it will no longer be able to call itself a building society. But as long as this is made clear, there are powerful reasons why the BSA should change its rules so that Abbey can remain a country member, at least.

Abbey accounts for 10 per cent of the BSA's income, and if, as seems likely, Alliance & Leicester, National Provincial and the Halifax, follow its lead, the BSA would be in dire financial straits. More important, if the Abbey is forced out, the BSA will be even more unrepresentative of its industry than it is now. The best thing would be to rename the BSA, the Housing Finance Association and open membership to the High Street banks and wholesale lenders who together account for 40 per cent of new mortgage lending.

Merger policy

The latest clutch of UK takeover bids has revived an argument last heard in the days of the Rowntree-Nestle battle – that of reciprocity, or fair play against the foreigners. The Monopolies and Mergers Commission gave short shrift last week to Gold Fields' complaint that the Anglo American group is bid-proof; undeterred, Bassett lodged a formal complaint with the OFT last Friday about the hostile bid from Procordia, on the grounds that Swedish companies are safe from foreign takeover.

The basic proposition was rejected out of hand by Lord Young at the time of the Rowntree bid, on the grounds that countries ill-advised enough to deprive themselves of the takeover stimulus merely harm themselves. Aside from the fact that this is not obviously true of Japan and West Germany, the argument contains a paradox. A Swiss or Swedish takeover of a British company exports the bid-proof culture to Britain. If Polo Mints and Yorkie Bars deteriorate in the hands of Nestle, the UK consumer can no longer look to a change of ownership to put things right.

But after all, reciprocity is only an issue in the UK on nationalistic grounds. When AB Foods bid for Berisford in 1987, it was not an objection that the bidder was family-controlled; nor has it been seriously suggested that privatised UK companies should be barred from hostile bids because they are themselves protected by golden shares. If UK companies want to erect an import barrier to cut off British investors from foreign cash, they must make a better case than this.

FINANCIAL TIMES
COMPANIES & MARKETS
Monday February 6 1989

INSIDE

Red flag keeps the Spanish bulls at bay

Any bullishness over new Spanish borrowings abroad has been firmly reined back following the introduction of tough new credit controls last week. While these remain in place, Spanish names will raise next to nothing in foreign currencies. The measures require borrowers to deposit 30 per cent of new foreign currency loans interest-free at the central bank. Page 18

Bond holders in revolt

RJR Nabisco, the US cigarettes and foods company which triggered panic among investors in corporate bonds when it announced proposals for a leveraged buy-out, now faces demands for compensation from some of its bond holders for the losses they incurred when the scheme was unveiled. Page 18

A question of corporate size

BIG IS BEST

A growing body of sceptics is starting to question the doctrine that bigger will automatically be better for corporate Europe after 1992. According to a report from the London Business School, the current rush of cross-border acquisitions could be positively harmful to competitiveness. But, argues Christopher Lorenz, there is no single truth about optimum scale in Europe. Page 38

If at first you don't succeed

Over the years Explaura Holdings, now quoted on London's Unlisted Securities Market, has been very much a stock for the hardened speculator. As a shell, the company embarked on a number of hopeful enterprises which met with little success; it went tea producing in Sri Lanka an gold exploring in Spain. Now it is about to go into production with a limestone quarry in Newfoundland. Philip Coggan explains the way in which the first part of its project — building the quarry — has been achieved and how there is plenty of marketing work to do before the scheme can be classed as a success. Page 22

Scramble for jewels of the deep

Steven Butler examines the sale of Texas Eastern's North Sea oil assets

Last year was by a factor of ten the busiest asset trading year in the history of the UK oil industry, with some 2.3bn barrels of oil equivalent in the ground changing hands.

This year is unlikely to come close to that total, which was bloated by the BP takeover of Britoil, but 1989 is already taking shape as a second hyperactive year for making deals.

With the oil industry showing a ravenous appetite for quality assets, and ready to pay a high price, oil acreage is finding its way to market.

There is no doubt that the oil assets of Texas Eastern, the US pipeline company, which are being virtually dumped on the market as the result of a hostile takeover bid by Coastal, will find a welcome home quickly.

The list of potential buyers runs to just about any oil company with a cheque book, although some companies, including British Gas, Enterprise Oil, Amoco, Amerada Hess, and Mobil Oil, may be particularly well placed to risk high bids because, as partners to Texas Eastern, they know the assets better.

A director from one of these companies, which has been trying for some time to get hold of the assets, was last week cooing about how beautiful they are, prime assets that are superbly balanced.

The advantage of an insider was well illustrated last year when Repsol, the Spanish state oil company, was pre-empted by Enterprise after it agreed to purchase from Texas Eastern a 10 per cent interest in the Beryl field for $276m (£156m).

Repsol was originally thought to be overpaying.

The figures for Texas Eastern's proven reserves, 510m barrels gross oil equivalent, 300m in the UK and about half in gas, come nowhere close to explaining the attractions.

Texas Eastern has been active in the North Sea from the first licencing round over 20 years ago, and has assembled a spread of producing assets, prospective developments, and exploration acreage that most exploration managers can only dream about.

The assets come with an extensive data bank on the North Sea that is difficult to assemble and valuable in its own right, and if a novice North Sea explorer comes in with the highest bid, an experienced staff is thrown in to boot.

The assets could easily have supported an independent company, although there is little time to arrange this now, with a March 15 deadline for the sale.

The balance exploration companies seek, and that Texas Eastern has, consists of a rising production profile, providing a strong cash flow to finance an exploration programme capable of replacing reserves that are, by definition, always being depleted.

This requires a string of development prospects that can come on stream at a speed that does not strain the capital resources of the company, and a spread of highly prospective exploration acreages.

Texas Eastern has this by dint of the fact that it was in on round one of UK licencing.

Some of its older acreage is considered prime now because of the bank of geological knowledge accumulated, and because, close to existing infrastructures, even small discoveries can be profitable.

That balance is well illustrated by ranking statistics developed by County NatWest Woodmac, the broking house. Of all North Sea oil companies, Texas Eastern is 20th in terms of gross value of assets.

On a measure of future potential, it ranks 22, close enough to indicate a good balance between current and future activities.

Many of the big North Sea operators show a much greater disparity, with future potential far down the list from current production.

The reverse of this situation is also unattractive because it means little cash flow to finance exploration.

The balance makes Texas Eastern attractive not only to its partners but also to relatively smaller players in the North Sea, such as Repsol or Lasmo, both of which have cash and are buying assets.

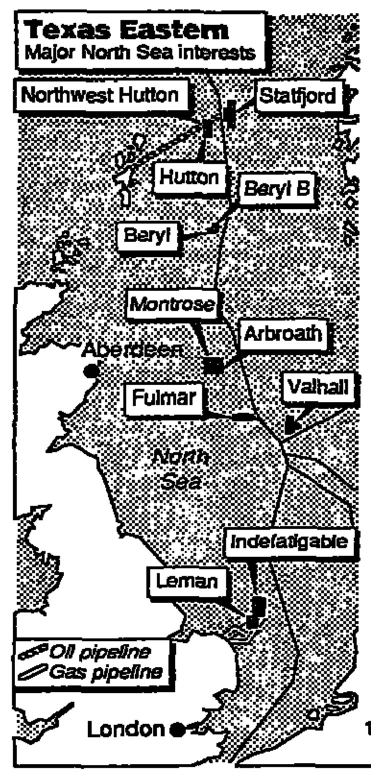
Other interested parties certainly include Elf Aquitaine and Petrofina.

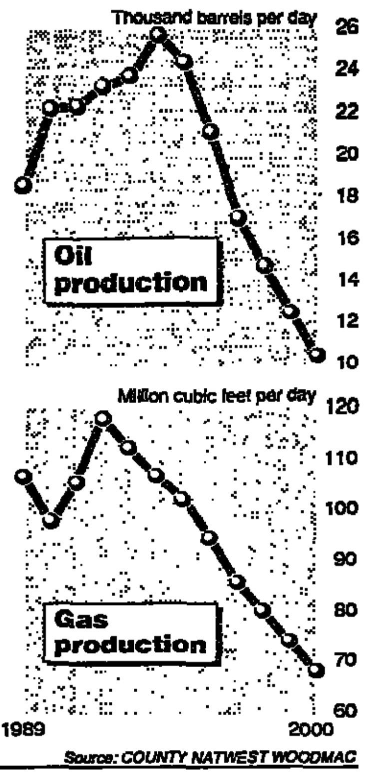
The Texas Eastern predicament, however, could prove to be the precursor to further asset moves by US oil companies active in the North Sea.

Texas Eastern was thought to be vulnerable because its North Sea assets were undervalued by US investors who saw Texas Eastern primarily as a gas transmission company.

By the time the auction is finished, these assets may turn out to be more valuable than the pipeline side of the business.

To companies like Amerada Hess, Occidental Petroleum, or Ranger Oil, the message must be clear, that the North American stock markets could prove to be the cheapest way into the North Sea.





Congress goes on a duck shoot

The Democrats are out to hoist Mr Bush with his own election rhetoric, reports Anthony Harris in Washington

It's "Read my beak" time in Washington; Mr Richard Darman's duck has already come home to roost. (Yes, I know that ducks don't roost, but the cliche is irresistible).

Some readers may need a little explanation. Mr Darman, the Budget director, brought ducks into politics some two weeks ago, when an interviewer asked him to define the difference between a tax and a user fee, or whatever other evasion may be invented: if it looks like a duck and quacks like a duck, it's a duck, he said.

This was a good homely metaphor, but bad politics; for it invites the opposition to join in the bird-watching. This became painfully obvious last week when Mr Nicholas Brady, the Treasury Secretary, floated the idea of a charge on all insured deposits to pay for the rescue of the thrift industry.

This is surely an insurance premium, and the rate he proposed, of about 0.3 per cent, was very close to the amount actually charged when Federal deposit insurance was first launched. The response was so hostile that this must be counted as the first serious setback of the Bush administration.

Now the idea of providing deposit insurance does raise serious policy questions. "Moral hazard" is altogether too mild a phrase to describe the lunatic and often criminal antics of part of the savings and loan industry. Insurance enables such operators to continue to attract deposits, and the money brokers provide such deposits on a large scale.

Insurance, therefore, can only safely be offered if the industry is well capitalised and well supervised. The forthcoming Bush plan for the industry will no doubt address these matters.

However, if deposits are to be insured, it is hard to see the objection to charging an adequate premium; indeed, Congress has itself discussed higher premiums in past debates on the thrift crisis. In normal times, the Congressmen would simply have discussed how big the charge ought to be.

Not this time, though. Since the "Read my lips" election campaign, the Democrats in Congress are determined to hoist the President with his own rhetoric. They are convinced that taxes will have to be raised to reduce the deficit, and determined that Mr Bush will be seen to have eaten his own aggressive words.

It was hard not to laugh when Mr Brady's proposal was greeted with cries of "It's a duck!", and everyone is flooded for jokes about quack forecasts when the President outlines his own Budget next week. But the joke will grow very sour before Congress tires of it.

It means that Budget-making will be the usual chaotic nightmare this year (the betting on Capitol Hill is on a final crisis Budget summit as late as October), which suggests that the next meeting of the Group of Seven will be a good deal less polite than the one which has just ended. The duck affair also fits into a broader picture: this supposedly expert Administration of Washington insiders is so far looking a little inept.

Mr Darman is a highly intelligent policy-maker, Mr Brady is a patrician investment banker who is no doubt used to deference and good manners. Neither is a politician by trade, and it shows.

Nor is Mr Louis Sullivan, the black Health Secretary designate, who wants to keep his connections with the medical school he is leaving, perhaps with a stipend. His problems seem to have come as a complete surprise to the very rich men who want to appoint him. Ex-Senator Tower, by contrast, is perhaps too much of a politician; he is known as one of the boys. *Hinc ille lacrimae.*

President Bush already has his political problems, despite his rising popularity (and the quite extraordinary unpopularity which Congress has brought on itself by apparently accepting a long-overdue pay increase). He complains that when he holds "secret" discussions in his search for bipartisan policies, some of those present leak to the Press. What on earth did he expect?

He also has an engaging habit of answering questions fully, frankly and off the cuff. Sometimes too frankly: he announced his general agreement with Federal Reserve Chairman Alan Greenspan on economic policy, while confessing that he had not read what Mr Greenspan had to say to Congress.

Mr Bush is likely to be more vulnerable to any serious trouble than Mr Reagan ever was, simply because he is so publicly engaged in everything that is going forward, and the economy looks likelier than any personnel problems to provide that trouble.

Mr Greenspan is in fact showing increasing alarm both at the deficit and at the unchecked pace of economic expansion, which he regards as very near the safety limit. He remains optimistic about the trade deficit (which makes at least two of us), but the fiscal deficit does appear to be stuck again, despite fast growth and Gramm-Rudman.

The fact is that the Gramm-Rudman law does not work unless the Budget is based on a realistic economic forecast. The Budget must by law produce a forecast deficit within defined limits; but as is shown by the substantial overshoot in the current year, there is no provision for a course correction once any wishful thinking is shown up by events.

Mr Greenspan is effectively warning the politicians that he will make sure that the interest rate forecasts in the final Reagan budget are hopelessly over-optimistic. Rates could come down, he has conceded, once a credible Budget is in place (though hardly as sharply as the Administration projection); but the next move is expected to be up again.

Meanwhile the Congressional Budget Office has spelled it out: if growth falls to the trend rate regarded by Mr Greenspan as safe, then on present policies the deficit is stuck, indefinitely.

The remedy does not in theory have to be something that quacks; the deficit could be cut by reducing tax breaks (but the President wants more), by cutting defence (but Mr Bush is more cautious here than second-term Reagan), or indeed by such financing changes as indexed borrowing (which Mr Michael Boskin favours, but Mr Darman opposes).

In practice, the choice still seems to lie between wishful thinking, and something which even Mr Darman would recognise as a duck.

The Republican Right is already trying to remind the President that on this issue, he is no moderate, but a man who shoots ducks when he sees them. The Congressional pay issue is being worked up almost hysterically, to brand Congress as a collection of greedy hogs.

Mr Greenspan is portrayed as front man for a central bankers' conspiracy to foreclose on the American dream, and indeed Mr Jack Kemp, designated as a Cabinet member, was congratulating Mr Bush as "President ready to stand up to the Fed," even as Mr Bush was praising Mr Greenspan. Mr Bush's economic honeymoon does not look like lasting much longer than the balmy Indian summer which greeted his accession. As I write, snow is forecast.

Economics Notebook

Imbalance worries are eclipsed

LAST WEEK'S Group of Seven meeting in Washington witnessed an apparent downgrading of the global current account problem which was one of the original spurs to greater economic policy co-ordination.

The G7 countries decided that they could continue aiming for exchange rate stability, shrugging off a virtual halt in the hoped-for decline of the current account imbalance between the US, Japan and West Germany. During their talks, the G7 finance ministers and central bank governors heard from the International Monetary Fund that the so-called adjustment process had slowed down.

There seems little chance that the US current deficit will fall much from its present annual rate of around $130bn while the Japanese and West German surpluses seem stuck around $79bn and $45bn respectively. In the past, such news would have spread discord and dismay among the assembled finance ministers and central bank governors from the US, Japan, West Germany, Britain, France, Italy and Canada.

In 1987, the imbalances prompted the US to engage in a public row with West Germany and resort to a policy of dollar devaluation to extract more expansionary policies from Bonn and the Bundesbank.

The imbalances have caused economic pundits to forecast market instability, a dollar collapse and warn of the dangers inherent in the US accumulating up to one trillion dollars worth of foreign debt by the early 1990s. Their warnings appeared all too valid when the US-West German row was overtaken by the October 1987 stock market crash.

But last Friday, the news about the current account deficits caused little visible concern. The G7 clearly found it difficult to cry wolf when the world economy has been so obviously buoyant.

Mr Michael Wilson, the Canadian Finance Minister, said the seven had agreed that the global economy was in "good shape" while Mr Satoshi Sumita, the Japanese central bank governor, said it showed even "brighter signs" than it did when the G7 last met in West Berlin in September.

Although the West German finance ministry expressed some alarm that the current account adjustment process could be seriously impaired if the dollar rises much above DM1.90, there are hopes that the decline in the imbalance will resume.

US Treasury officials said that US exports are strong and export order books even stronger. IMF officials believe that US exports could grow more strongly if the US economy slows as expected during the year. The imbalances also appear less threatening because their composition has changed. The West German surplus, for example, is now largely with Europe rather than the US.

Other G7 countries may not want to rock the boat. A dollar decline at this stage would not help the US export more. With the US economy running at or near full capacity to meet strong domestic demand a dollar fall would only fuel inflation. The US's major trading partners may even have been satisfied that Mr Nicholas Brady, the US Treasury Secretary, will produce a credible Budget plan for fiscal 1989 this week.

A Budget with a credible deficit reduction package is seen by the America's allies as the best way of achieving a gradual lowering of US domestic demand and hence a decline in the current account deficit.

The US Treasury, meanwhile, insists that it is not ignoring the current account. A senior official said last week that the US is conscious of the need to lower further the US trade and current account deficits because they cause US foreign indebtedness to rise and encourage protectionism.

Other factors such as the recent rise in short-term interest rates have buoyed the dollar and overshadowed the current account trends. But foreign exchange markets are notoriously fickle and could easily re-focus on the US current account should there be a run of poor monthly trade figures.

Papering Over

Those who always thought that G7 meetings were all about papering over cracks will relish the following insight from Mr Tatsuo Murayama, the Japanese finance minister when he met the press after his first G7 meeting on Friday.

Describing how the G7 decided it could just about live with the present rate of the dollar, the recently appointed Mr Murayama said: "There were various opinions put forth. Some people would say the level is too high. Some people said the level is too low. There was a divergence of views.

In conclusion those who first expressed the view that it was either too high or too low, after discussion, would conclude that, perhaps, it is after all within an acceptable range." Mr Murayama said the same process applied when the ministers discussed inflation and interest rates. "And the result and the conclusion is that we can, in general terms, say that everything is within acceptable levels."

Peter Norman

THIS WEEK

INFLATION TRENDS in the US could provide a theme in financial markets this week with January's producer price index released on Friday.

The indicator, which covers factory-gate prices, provides an early warning of trends in consumer price inflation. Signs of growing inflationary pressures could unsettle recent positive sentiment about the dollar.

The consensus of analysts forecasts compiled by MMS International, the financial research company, is for a rise of 0.4 per cent.

Also in the US, the Federal Open Market Committee (FOMC), the US Federal Reserves key policy-making committee, meets tomorrow. Analysts will be looking for evidence that the Fed will tighten policy or even raise discount rates.

In West Germany, merchandise trade figures for December are due on Thursday and are likely to show another large surplus. Japanese merchandise trade figures for January are released on Friday and are likely to show another large surplus on the seasonally-adjusted measure.

Both will highlight the scale of world trade imbalances and possibly influence Yen and D-Mark trading.

Japanese wholesale prices may also be published this week, showing inflation trends. A steep increase could encourage speculation about a tightening in Japanese monetary policy.

In West Germany, figures for industrial orders in December are due sometime this week. The Bundesbank will announce terms of the latest batch of securities repurchase agreements which analysts will watch for possible changes in interest rates.

In the UK it is a thin week for economics statistics. The exception is today's figures for credit business and retail sales in December.

These will give a guide to the strength, or otherwise, of the UK consumer sector. Provisional retail sales figures, published last month, showed a small drop in December.

That was the second consecutive monthly fall and it triggered speculation that high interest rates had begun to bite. An downward revision could further boost hopes of a cut in base rates.

The Bank of England publishes its quarterly bulletin on Thursday. Analysts will be looking for an insight into the monetary authorities thinking on whether its high interest rate strategy is working.

Other events and statistics this week include:

Today: US Purchasing managers survey for January. Preliminary productivity and costs in last three months of 1988.

Tomorrow: US three-year Treasury note auction. Congressional hearings on US budget deficit and economy.

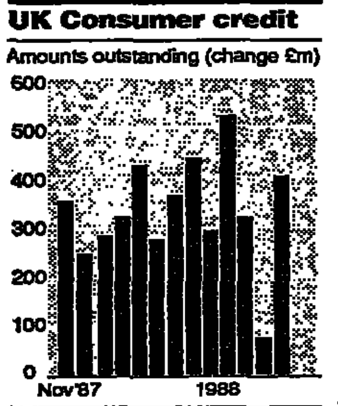
Wednesday: UK Department of Employment publishes Employment Gazette. US 10-year Treasury note auction.

Thursday: Mr John Major, Britain's Chief Secretary to the Treasury, opens the House of Commons debate on last week's public spending white paper. US 30-year Treasury bond auction. Australian unemployment in January.

Friday: US wholesale trade inventories. FOMC minutes (December 14 meeting).

UK Consumer credit

Amounts outstanding (change £m)



SPANISH FOREIGN BORROWING

Tough controls add to steep fall in loans

FORECASTS of new borrowing abroad by Spanish borrowers this year took a sharp drop last week. While the tough credit controls introduced in Madrid on Tuesday remain in place, Spanish companies will raise next to nothing abroad.

Borrowers from Spain raised foreign currency bank loans amounting to at least $3.25bn last year, mostly in dollars and D-Marks, although some of this was accounted for by refinancings of more expensive earlier borrowings. Bond issues abroad, mainly in Swiss francs and D-Marks, totalled $1.6bn.

The new measures require borrowers to deposit 30 per cent of new foreign currency loans interest free at the central bank. This raises the cost of borrowing by 43 per cent, making dollar-denominated borrowings hardly competitive with pesetas, even when the exchange risk is ignored. While Swiss francs might still look relatively attractive – bond coupons of 5 to 6 per cent still give a cost of funds of 8 or 9 per cent to Spanish borrowers – would-be issuers have to take account of exchange risk and the unfortunate effects on their gearing of having to borrow $100 to raise $70. (Where foreign currency has been raised through bank operations, the required deposit is 20 per cent.)

This means foreign bankers – described by a specialist magazine last week as "tripping over each other in the stampede" to win loan mandates – will have to be content with refinancing existing foreign borrowings, which will be exempted from the reserving requirement.

Two loans already in the market – a $200m refinancing for the Madrid-based electrical utility Fenosa, being arranged by Chase Investment Bank, and an Ecu150m loan for the Madrid municipality, being raised by Manufacturers Hanover – should escape the new rules: the first because it was a refinancing, although it has not yet received official authorisation, and the second because it was previously authorised. Plans to raise the Madrid deal to Ecu200m have been scuppered, however.

A borrowing bonanza was not expected this year since many companies have made good profits in the past two years and do not need other funds. Refinancing and new money requirements were together estimated to total less than $3bn. Nevertheless, a number of Spanish companies could face a hard time raising funds – foreign loans have typically accounted for some 30 per cent of utility borrowings in recent years – particularly in view of the tightening of the domestic market.

As expected, the Bank of Spain continued to turn the screws on Friday, raising its interbank rate 1 percentage point to 13.4 per cent. Prime rates will rise to around 15 per cent but most businesses will be paying between 17 per cent and 18 per cent.

Under regulations now in force, commercial bank liquidity ratios have been raised 1.5 points to 18 per cent of deposits, 6.5 per cent of which bear no interest.

Renfe, the state railway operator, is thought to be planning to refinance some $300m this year and to have had some new borrowing in mind. Telefonica, the telephone monopoly, just missed the crunch, striking last month a Pta55bn deal with the European Investment Bank.

The Treasury expects the measures to bring foreign borrowing to its knees quickly. The immediate danger is that the rise in Spanish interest rates may begin to attract new and unwanted speculative investment from abroad.

Stephen Fidler and Peter Bruce

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	3,853.8	908.8	61.5	11,340.4
Prev	2,021.8	0.0	68.0	10,974.0
Other	5,280.0	388.5	927.5	1,712.9
Prev	1,179.7	3.6	137.6	1,237.7
Secondary Market				
US$	12,599.0	1,424.5	5,177.1	7,451.4
Prev	11,546.3	1,315.3	4,581.9	6,809.9
Other	17,777.8	1,486.2	5,773.1	21,867.4
Prev	16,717.5	1,123.2	5,101.7	22,419.4

	Cedel	Euroclear	Total
US$	11,233.8	31,582.7	42,816.5
Prev	9,385.7	27,931.5	37,317.2
Other	24,524.8	30,688.6	55,213.4
Prev	21,600.4	26,320.0	47,920.4

Week to February 2, 1989.

Source: AIBD

INTERNATIONAL BONDS

RJR resists put clause

RJR Nabisco is resisting efforts of one of its underwriters to enforce a bond holder protection clause in the indenture of two Swiss bonds the company launched years ago.

The clause is similar to so-called poison puts intended to protect investors against leveraged buy-outs or takeovers which cause bond ratings to be cut sharply and values to plummet.

Ironically it was Kohlberg Kravis Roberts' $2.5bn leveraged buy-out of RJR Nabisco last year which triggered the latest demands from investors for protection from event risk.

JP Morgan (Switzerland), underwriter of two Swiss bonds in 1985 and 1986, said that a clause in the indentures allows it effectively to call the bonds unless RJR Nabisco and the buy-out company, Kohlberg, Kravis and Roberts, come up with a better plan for bond holders.

Morgan said that it believes the merger does not include adequate protection for bond holders as required in reorganisations by the bond indentures. Therefore, Morgan said it would issue a notice of its intent to declare the bonds callable at par 30 days after the merger is completed, unless RJR Nabisco and KKR come up with a better plan to protect the interests of bond holders.

The bonds are a SFr275m bond due 2000 with a 5⅜ per cent coupon launched in 1985 and a $124m Swiss franc dual currency bond with a 6 per cent coupon launched in 1986 and maturing in 1994.

KKR and RJR Nabisco are apparently unwilling to call the bonds at par without a fight.

● NV has been forced to backtrack after an effort to reduce the fees on a new Ecu Eurobond below what is standard in the industry.

Early on Friday, the bank announced a Ecu150m five-year Eurobond for Belgium bearing a coupon of 8⅛ per cent, priced at 101¾ and carrying management and underwriting fees of ½ per cent.

But management and underwriting fees for Ecu bonds of that maturity are typically ⅝, and other Eurobond houses refused to join the syndicate. Several hours later, Kredietbank announced it was raising both the issuing price and the fees by ⅛ point.

Norma Cohen

UK MORTGAGE SECURITIES

Bank publishes new rules

THE uncertainties which have prevented British banks from converting their mortgage assets into securities were largely removed on Friday with the publication by the Bank of England of new rules.

The Bank's consultative paper was published in December 1987. In the intervening period only the TSB has converted mortgages into securities with a £135m issue.

The rules aim to ensure that once a loan has been removed from a bank's balance sheet – allowing the bank to liberate capital – there are no residual claims on the bank, unless it is subsequently proved to be negligent.

They are less restrictive than proposed, but tougher than bankers desire. The rules emphasise the moral risks of transferring mortgages off-balance sheet and impose administrative burdens on banks to control risks. There are three main concessions:

● A bank may make a one-time contribution to an issuing vehicle in the form of a long-term subordinated loan to enhance its creditworthiness.

● It will also be allowed to enter into interest-rate swap agreements with the vehicle at market prices.

● A bank can retain an option to repurchase loans once the loan portfolio falls to less than 10 per cent of the maximum value.

There is a hint that the Bank might entertain a joint venture by UK banks to service mortgage securities, which would undoubtedly reduce legal costs.

Nonetheless, the Bank has not given ground in one important area. A bank "may not provide temporary finance to a scheme to cover cash shortfalls arising from delayed payments or non-performance of loans which it administers."

According to bankers, the new rules make it more difficult to securitise mortgages for a UK bank than a US bank (even in the UK), and, apparently, for a UK bank than a building society. Higher costs will obviously, at the margin, reduce the advantages of mortgage securitisation, delivered a blow anyway last year by the 50 per cent capital weighting allocated to mortgage loans. The strictness of the Bank's interpretation of its own rules will be important.

Stephen Fidler

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Canon Inc.(a)ϕ♦	600	1993	4	4⅛	100	Yamaichi Int.	4.125
Canon Inc.(a)ϕ♦	400	1993	4	4⅛	100	Singapore Nomura	4.125
Topy Inds.ϕ♦	150	1993	4	4⅜	100	Nikko Secs.	4.375
Dai-ichi K'Denki(b)ϕ♦	90	1993	4	5	100	Nomura Int.	5.000
Tokyu Store(c)ϕ♦	90	1993	4	4⅞	100	Nomura Int.	4.875
Sanken Electricϕ♦	150	1993	4	4⅜	100	Daiwa Europe	4.375
Kyoceraϕ♦	300	1993	4	4⅛	100	Daiwa Europe	4.125
Nippon Steel(j)ϕ♦	1.2bn	1993	4	4⅛	100	Nikko Secs.	4.125
Sumitomo Metalϕ♦	500	1993	4	4⅛	100	Nikko Secs.	4.125
Kobe Steel(d)ϕ♦	500	1993	4	4⅛	100	Yamaichi Int.	4.125
Kobe Steel(e)ϕ♦	500	1993	4	4½	100	Nomura Int.	4.500
NEC Corp.(l)ϕ♦	700	1993	4	4⅛	100	Daiwa Europe	4.125
GMAC♦	200	1992	3	9⅝	101⅛	UBS Secs.	9.179
Nissan Motor Cr.♦	120	1992	3	9¾	101¼	Daiwa Europe	9.254
Credit Foncier♦	300	1999	10	9½	101.70	LTCB Int.	9.232
Creditanstalt♦	100	1999	10	10	102	Morgan Stanley	9.679
Fujikuraϕ	100	1993	4	(4⅝)	100	Yamaichi Int.	★
Mitsubishi Gas Chem.ϕ	100	1993	4	(4⅝)	100	Yamaichi Int.	★
Exim Bk.of Japan♦	250	1999	10	9½	101¾	Nomura Int.	9.225
Republic of Austria♦	140	1993	4	9⅝	101½	Nikko Secs.	9.160
Postipankki♦	150	1995	6	10	101⅞	Bankers Trust	9.575
Abbey National♦	200	1994	5	9¾	101⅝	Nomura Int.	9.329
Finnish Export Cr.♦	125	1999	10	10	102	Morgan Stanley	9.679
Skopbank♦	50	1995	6	10	101⅞	Banque Indosuez	9.575
BP America♦	200	1999	10	9¾	101½	Morgan Stanley	9.511
Kellogg♦	200	1992	3	9½	101.40	Goldman Sachs Int.	8.948
Nippon Miningϕ	500	1993	4	(4½)	100	Nikko Secs.	★
Keio Teito Elec.Rail.ϕ	200	1993	4	(4⅝)	100	Nomura Int.	★
Toronto Dom.Bank♦	100	1999	10	10	101⅞	Morgan Stanley	9.699
Swedbank♦	100	1999	10	10⅛	102	Daiwa Europe	9.802
Finnish Export Cr.♦	150	1990	1	9¾	100	Yamaichi Int.	9.750
Ist.Banc.San Paolo(f)♦	50	1999	10	10⅛	102	Nippon Credit Int.	9.802
IMI Bank Int.(m)♦	100	1999	10	10⅛	101⅞	Salomon Brothers	9.822
AUSTRALIAN DOLLARS							
State Bk.South Aust.♦	50	1991	2	16	101⅞	Hambros Bank	14.849
St.Bk.New Sth.Wales(g)♦	60	1994	5	16½	101.40	SBC	16.072
CANADIAN DOLLARS							
Prov.New Brunswick♦	150	2001	12	10¾	101⅜	Wood Gundy	10.543
Bk.Montreal(Singapore)♦	100	1991	2	11⅜	101.30	Bk.Montreal Cap.Mkt.	10.620
D-MARKS							
Eurofima♦	150	1995	6	6⅛	100¾	Trink.u.Burkhardt	5.973
Republic of Ireland♦	300	1999	10	6½	100	Commerzbank	6.500
SWISS FRANCS							
Toa Electric(l)ϕ♦	30	1994	-	1¼	100	Banca D'Svizzera	1.250
Tiger Polymer★★§♦	25	1994	-	½	100	Citicorp	0.500
Mitsuuroko Co.★★♦	40	1994	-	4⅝	97	Fuji Bank(Schweiz)	5.324
Belgium★★♦	100	1996	-	5¼	100½	SBC	5.163
EIB♦	200	1999	-	5¼	100½	UBS	5.185
Mitsui Toatsu Chem(h)	200	1993	-	(½)	100	SBC	★
Taka-Q Co.(k)§★★	150	1994	-	(½)	100	SBC	★
LUXEMBOURG FRANCS							
Finncell★★♦	300	1994	5	7¾	100	BIL	7.750
Credit Europeen SA★★♦	300	1995	6	0	65¼	Credit Europeen SA	7.375
Credit Lyonnais♦	300	1994	5	7½	100¼	Credit Lyonnais	7.438
Norddeutsche LB♦	300	1994	5	7½	100	Bque.Gen.du Lux.	7.500
Rep.New York Cap.Mkts♦	700	1994	5	7⅜	100¼	Bque.Gen.du Lux.	7.314
STERLING							
Kingdom of Norway♦	200	1994	5	10½	101⅝	Samuel Montague	10.071
John Lewis♦	100	2014	15	10½	100.23	Warburg Secs.	10.469
LIRE							
Vnesheconombank♦	75bn	1994	5	12¼	101⅞	Banco di Roma	11.733
YEN							
C.Itoh America♦	10bn	1993	4	7	108.81	Nikko Secs.	4.539
Orient Leasing♦	10bn	1996	7	7	114¾	Nomura Int.	4.497
Orient Leasing♦	5bn	1994	5	5	101¾	Daiwa Europe	4.600
EIB♦	30bn	1993	4	4⅞	101¼	Nikko Secs.	4.526
Bergen Bank SA♦	10bn	1993	4	5	101⅝	Nomura Int.	4.547
ECUs							
Toyota Motor Cr.♦	100	1994	5	8	101⅝	CSFB	7.597
Gen.Elec.Cap.Corp.♦	125	1994	5	8⅛	101¾	Merrill Lynch	7.690
EIB♦	50	1994	5	8	101	BIL	7.751
Belgium(n)♦	150	1994	5	8⅛	101¾	Kredietbank NV	7.690

ϕWith equity warrants. §Convertible. ★★Private placement. ♦Final terms. ★Not yet priced. a)Issues fungible. b)Warrants exercisable from 1/3/89 to 2/2/93. c)Warrants exercisable from 3/3/89 to 3/2/93. d)Asian tranche. e)European tranche. f)Notes and warrants exercisable from 23/2/89 to 21/1/94. Call option for 9/8/91 at 101¼ decreasing by ¼ semi-annually. g)Coupon refixable annually on each interest payment. Put options then at par. h)Indicated put option on 31/3/91 at (104¾) to yield (2.79). i)Issue amount increased from $500m to $700m. j)Issue amount increased from $1bn to $1.2bn. k)Indicated put option for 31/8/91 at (108) to yield (2.81). l)Callable at par on 2/3/92. m)Callable at par on 31/1/92. n)Issue terms and fees altered after initial launch. Note: Yields are calculated on an AIBD basis.

US MONEY AND CREDIT

Yield curve's unusual inversion

ON FRIDAY morning, the US credit market almost stood on its head. For a moment, it seemed that it would become more rewarding for an investor to lend his money for three months than for half a lifetime. The bond-equivalent yield on three-month Treasury bills almost exceeded the yield on 30-year Treasury bonds.

This near inversion of the so-called yield curve is most unusual. At the best of times, it is hard to convince investors that their money will be no more the prey of inflation and currency depreciation over the 30 years than over a quarter. On Friday morning, this notion seemed particularly bizarre.

Traders arrived at their desks to see a bulletin from the Labor Department showing spectacular growth in employment in January. During the month, US payrolls outside the farm economy swelled by 408,000 people, the work week lengthened and hourly earnings increased at a rate equivalent to 4 per cent a year. As unemployment in the US economy is already at a cyclical low, this job growth looked about as sure a signal of future inflation as anybody could want.

Economists such as Mr Robert Brusca, of Nikko Securities, and Mr Philip Braverman, of Irving Securities, said that the figures were puffed up by seasonal oddities. For example, the unusually warm weather in the northern US last month caused a flurry of unseasonal building activity and this brought on the sharp gain of 102,000 in the construction workforce. Even so, the greatest bond bull would scarcely deny that the US economy entered 1989 with momentum behind it. As Mr Mitchell Held of Smith Barney said: "It would take an extremely creative analyst to glean much evidence of a slower pace of economic growth out of the employment data."

The bond market is not simply perverse. Bond investors – as well as the stock market – are convinced that Mr Alan Greenspan, the chairman of the Federal Reserve, has the will and the ability to quench the slightest glimmer of inflation with a dose of higher interest short-term interest rates. Current bill yields, it seems, reflect the example of a Federal Funds rate at 9 per cent. Investors should hurry to lend long at just 8.8 per cent.

Indeed, there is talk in corners of the market of a coming drought of long-term bond investment opportunities. The market was quite prepared last week for the Treasury to announce a larger than usual slice of long-term bonds in its regular quarterly refunding this week. There even seemed a little disappointment that the volume was a humdrum $9.5bn, only $500m more than at the November auction.

Is all this optimism justified?

The Labour Department report was a shock. Many people immediately assumed the Fed would send some signal through its open market operations that short-term rates were on the way up. This did not happen.

It is possible that the Fed is merely waiting to tighten monetary policy this week or that it "saw through" the seasonal curiosities in the employment report more quickly than the market. But a rise in short-term rates this week would play merry hell with the Treasury refunding. And the notion of a Federal Reserve even more sanguine than the market is not a recommendation for the glimmer theory.

The employment figures do suggest that the US economy is growing at a rate which will probably amount to 3.5 per cent or more (allowing for effects of last year's drought). This is quite large given that the Fed has been pushing up short-term rates for some time. More important, the growth is occurring in those areas of domestic consumption – retail, for example, or building – which are supposed to fall back in the face of higher short-term interest rates. The stock market is booming. There is no evidence at all that the higher short-term rates are leading to a trimming of expectations.

What they are doing, as Mr Brusca argues, is sucking in foreign capital, raising the exchange value of the dollar and reducing exports. "There's all this job growth, creating extra income which is going on imports," he says. "Meanwhile, exports are slowing because higher interest rates are eroding US competitiveness." The lagging of production against consumption, with manufacturing jobs up only 46,000 in January, bears this out.

The bond market has given up thinking about the trade deficit. The belief is that high short-term rates will maintain the exchange value of the dollar even if a poor monthly trade deficit figure causes a sell-off. But this view seems overhopeful. Recent history has shown that when foreign exchange traders have a mind to sell a currency, a few points of yield differential at the short end do not matter a fig.

The last plank in the bulls' case may also be wobbly. There is growing optimism that the Bush Administration and Congress will come to some agreement to reduce the budget deficit and thus restrain an important piece of overall demand. But judging from the brouhaha over deposit fees, which were supposed to do their bit to help the crisis in the thrift industry, nothing to do with reducing the budget deficit will be easy.

James Buchan

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	9.00	9.13	9.00	9.60	6.27
Three-month Treasury bills	8.47	8.57	8.20	8.57	6.21
Six-month Treasury bills	8.62	8.83	8.48	8.87	5.72
Three-month prime CDs	9.30	9.20	9.25	9.35	6.77
30-day Commercial Paper	9.05	8.57	9.04	9.45	6.65
90-day Commercial Paper	9.10	9.05	8.95	9.18	6.65

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	101 1	+⅛	9.04	8.97	9.29
20-year Treasury	104	-⅞	8.91	8.86	9.14
30-year Treasury	101¼	-¾	8.83	8.76	9.03

Source: Salomon Bros (estimates).

Money supply: In the week ended M1January 23, M1 rose by $2.2bn to $785.8bn.

NRI TOKYO BOND INDEX

December 1983 = 100	PERFORMANCE INDEX 2/2/89	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	148.67	4.57	148.89	147.19	143.88
Government Bonds	149.41	4.29	149.91	148.44	144.19
Municipal Bonds	158.95	4.81	151.06	148.55	145.85
Govt.-guaranteed Bonds	152.09	4.85	152.14	149.66	147.35
Bank Debentures	141.65	4.53	141.55	140.31	137.84
Corporate Bonds	148.67	5.36	148.51	146.61	144.40
Yen-denom. Foreign Bonds	152.56	6.14	151.19	149.59	146.49
Government 10-year†	4.87		4.83	4.86	5.16

† Estimated par yield

Source: Nomura Research Institute

Resignation at Nomura

By Stefan Wagstyl in Tokyo

MR ROBIN KOSKINEN, head of US government bond operations at the New York office of Nomura Securities and the Japanese securities group's highest-ranked American, has resigned.

His surprise departure could harm Nomura since he was given much of the credit for building the fixed income business from scratch when he joined over four years ago.

Nomura relied on strong profits from bonds to offset losses in other parts of the US business. It is repositioning its New York operation after losses of some $15m in the year to last September.

Since October 1987, staff has been cut from over 600 to fewer than 500, including about 30 people who lost their jobs last month when Nomura cut its US domestic equities business.

Mr Koskinen, 41, was regarded by some Nomura executives as a possible future head of the US subsidiary. He said he was going to spend more time with his family.

UK GILTS

Foreigners make way for Bank

ALL THINGS considered, the gilts market held up quite well last week. Some investors, probably foreign, took the opportunity to lighten their exposure to the market. This made way for the Bank of England to enter the market. By the end of the week, with primary dealers feeling a little squeezed, the market moved ahead.

The market has shown a willingness to react to what it perceives to be good news. There has, however, been little follow through, possibly indicating that it still has lingering doubts over the short-term to medium-term outlook for the economy.

This week is not one that is likely to provide the market with much impetus, either negative or positive, unless today's release of final retail sales for December shows an upward revision to the 0.1 per cent fall provisionally recorded.

The publication on Thursday of the Bank's Quarterly Bulletin might provide an interest, but those who believe the apparent signs of an imminent slowdown will probably find the Bank cool.

Signs there are, but "steady as she goes" and "caution" are likely to be among the key sentiments underlining its analysis of the British economy. The message from the Bank is likely to be that we are not out of the woods yet. If last year's February Bulletin is any guide, the Bank is also likely to call, obliquely of course, for fiscal policy to err on the tight side.

If it does, the Bank will find plenty of sympathy in the City. The Institute of Fiscal Studies/Goldman Sachs Green Budget presentation last week sent a shiver down the spine of many in the market with what IFS/GS regarded as a wholly unremarkable prediction that the Chancellor might award tax cuts of up to £3bn, including a 1p cut in the basic rate of tax.

It underlines, however, a feeling in the market that cutting taxes this time around is dangerous. An MSS International survey of analysts last week found that 72 per cent were not anticipating a cut in the basic rate. They were evenly divided on the chance of a base rate cut one week either side of the Budget.

The money market has moved in favour of a base rate cut – two-month rates and longer have moved below 13 per cent – but there must be questions over the Government's ability to reduce interest rates and simultaneously maintain sterling's strength. The risks of a premature cut in interest rates would seem to outweigh the risks of rates maintained at too high a level.

This is especially so at a time when pressures elsewhere in the world are pointing in the opposite direction. The 408,000 rise in US non-farm payrolls in January when taken with recent comments by Alan Greenspan, chairman of the US Federal Reserve, adds weight to the expectation of at least another rise in US rates.

The Bundesbank has also made it plain that it believes intervention in currency markets to achieve exchange rate outcomes is a flawed tool and shown its preparedness to raise German interest rates to support the D-Mark. Clearly, any move in German rates will be conditioned by the net effect of a rise in US rates and the way the D-Mark/dollar rate behaves.

Some lumpy sterling trades went through the foreign exchange market last week. They did not have lasting consequences for the value of the pound, but sterling did drop quickly and precipitously when they went through the market and that gave many pause for thought.

If there is another round of US and German tightening and the UK cuts rates, then the chances of the pound surviving that two-way squeeze on interest rate differentials would seem limited.

● That said, the gilts market had a reasonably good January. Most of the movement recorded in the chart was loaded into the last two weeks of the month, Friday's close not being too much better than the last full trading week of January.

A domestic investor would have earned a return of around 3 per cent on gilts (assuming a split between conventionals and index-linked). This pales, however, against a similar decision to invest in equities where returns of more than 15 per cent were earned but better than the 1 per cent or so returned by cash.

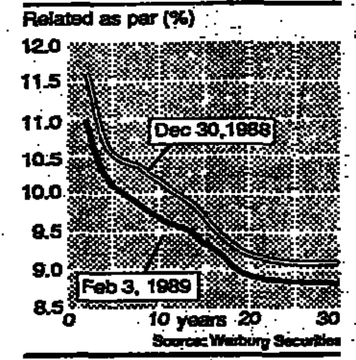
Indeed, equities have returned in one month what cash was expected to do in a year. This has led to a reassessment among fund managers of the correct weighting of cash in their portfolios.

Mr John Shepperd of Warburg noted that an interesting game is being played out in the gilts market at present. The Bank has clearly returned to the market and in size. This has made domestic investors reluctant to sell.

The consequence of the Bank's strategy of buying on weakness results in a higher level for the market being established. Stock shortage, which is reinforced by the Bank's activities, is also a powerful reason for not selling.

Simon Holberton

UK gilts yields



Source: Warburg Securities

FT/AIBD INTERNATIONAL BOND SERVICE

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon. CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on FEBRUARY 3

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Thomson and Matra pull out of PC business

By Paul Betts in Paris

THOMSON AND Matra, two of France's leading electronics groups, have decided to withdraw from the micro and personal computer business, barely five years after entering this highly competitive sector.

Both Thomson and Matra have been losing money in the micro-computer field and felt they had little hope of competing successfully in this market, despite restructurings and joint ventures with other international electronic groups.

Thomson confirmed yesterday that it would halt its personal computer business by the end of this year. Indeed, the company is understood to have already stopped production of its TO16, MO7 and MO6 small computer range, but will continue to supply the market from its existing stocks. However, the state-controlled defence and consumer electronics group confirmed that it would continue to provide service and maintenance to its small computer customers.

Thomson also said the decision to withdraw from this market reflected its current strategy of refocusing its consumer electronics operations on its core television and video businesses which have been dramatically expanded by its acquisition of General Electric's RCA consumer electronics operations in the US.

Thomson's entry into the personal computer market had initially been supported by large orders from the French Government for its schools and university computer programme. However, government orders dried up and Thomson failed in its sales targets because of intense competition.

For its part, the privatised Matra group has also decided to shut the micro-computer activities of its loss-making Matra Datasystème subsidiary set up in 1984. Despite a co-operation agreement with Norsk Data Matra, like Thomson, it failed to make a significant breakthrough in the professional micro-computer market.

Matra has reached an agreement with Thomson whereby its subsidiary, Thomainfor, will provide maintenance for Matra Datasystème customers.

Two US airlines to unite reservation systems

By James Buchan in New York

AMERICAN AIRLINES and Delta Air Lines, two big US air carriers, are combining their computerised reservation systems into an independent $2bn operation in an attempt to capture a bigger share of overseas business.

The deal, announced yesterday, involves the creation of an independent partnership to hold the reservation systems the two airlines have developed and supplied to travel agents since the mid-1970s. Because the American system, Sabre, is far larger than Delta's Datas II system, Delta will also pay its partner $650m in cash.

The two airlines say they intend to offer equity shares in the operation, to be based in Dallas/Fort Worth, to other airlines and travel companies at a price of $20m per percentage point of share. But the founding airlines will retain at least 25 per cent each.

For the two airlines, the deal has several advantages. It allows American to realise some of the value of Sabre, which it launched in 1976 and has built up into the largest US computerised reservation system. In contrast, Delta's system was started only in 1982 and has gained a relatively small market share.

But the deal is primarily a response to big changes in the multibillion dollar computer reservation business. These costly systems were originally designed as marketing vehicles for individual airlines.

Increasingly, they are recognised as free-standing businesses. As airlines have expanded operations in the US and overseas, they have been obliged to share ownership of their reservation systems. Among the largest US airlines, *United Airlines has combined* with USAir and TWA and Northwest Airlines have formed a partnership, while European airlines are building two large joint systems.

American said yesterday that Sabre had run into difficulty in Europe because of suspicion that it is simply a proprietary vehicle for American. In addition, single-owner systems have been under fire from regulatory authorities. Mr Robert Crandall, chairman of American, said the deal "reflects a long-range corporate commitment to strengthen our international presence while at the same time deal with the nagging regulatory issues."

Continental Air's chief quits

By Roderick Oram in New York

CONTINENTAL Airlines, one of the two struggling operating subsidiaries of Mr Frank Lorenzo's Texas Air holding company, has lost its fifth president in five years.

Mr Martin Shugrue has resigned less than a year after Mr Lorenzo gave him the task of turning round heavily loss-making Continental. Although Mr Shugrue, ousted as vice chairman of Pan Am last year, made some progress, Mr Lorenzo was reportedly unhappy with the slow pace of recovery.

Wall Street believes a hefty fourth-quarter loss will push its full-year deficit above last year's $258m.

Mr Shugrue's authority was undermined in December when Mr Lorenzo replaced himself as chairman of Continental with Mr Joseph Corr, a former president of Trans World Airlines. Mr Corr quickly established himself as a tough chief executive while Mr Lorenzo turned more attention to the deep problems of Eastern Airlines, Texas Air's other operating arm.

Eastern Airlines faces a strike in less than four weeks by its maintenance and baggage employees unless negotiations over wage cuts take a dramatic and highly unlikely turn for the better. Alternatively, the company will be free to impose a new contract and lock out any workers who refuse to accept it.

Separately, Scandinavian Airlines System has increased its stake in Texas Air to 9.9 per cent from 7.9 per cent.

After-hours futures trading advances

By Chris Sherwell in Sydney

THE Chicago Mercantile Exchange's Globex automated transaction system, being developed with Reuters for after-hours global futures trading, has advanced another step with the admission of the Sydney Futures Exchange as its first foreign partner.

The announcement came just hours after the Commodity Futures Trading Commission (CFTC), the US regulatory body, approved implementation of Globex. It followed the decision by the New York Mercantile Exchange (Nymex) to join the system.

According to Mr Bill Brodsky, president and chief executive of the CME, Globex is a "giant step" towards a truly global exchange.

Although formally Globex is a transaction system which simply extends the CME's trading hours, when it starts operating next year it will reach Reuters' 160,000 screens across 170 cities and allow investors and dealers in stocks, bonds and currencies to hedge their risks via computer.

The announcement coincided with a sombre warning from Mr Henry Bosch, head of the National Companies and Securities Commission, Australia's securities watchdog, that the rapid growth in prospect on international futures markets was likely to be hobbled by an inability of governments and regulatory agencies to keep pace with the changes.

Canadian delay for American Express

By David Owen in Toronto

THE CANADIAN Government appears to have extricated itself from a potentially messy confrontation with domestic banks by agreeing to delay by up to one year the granting of a Canadian banking licence to American Express.

In the interim, legislation clarifying the extent to which financial institutions can be owned by commercial entities and detailing the degree to which banks, trust companies and insurers will be permitted to encroach on each other's turf is to be formulated.

This legislation, which will constitute the final stage of Canada's financial services deregulation, is already close to a year behind schedule.

The banks have also been promised that they will soon be allowed to merchandise *goods and services (including* insurance) to their credit card holders. Such customers make up about 20 per cent of their overall client base.

The compromise removes the prospect of a public hearing into the American Express application which could have proved embarrassing to bankers and Government alike.

The banks, whose patience had already been strained by the failure of the US-Canada free trade agreement to open up full reciprocity in financial services, were incensed at the granting of American Express's licence on three counts: the American company's commercial status; the fact that it would effectively receive powers significantly beyond their own; and the concern that financial services reform was in effect being formulated on an ad hoc basis.

Currently, banks are prohibited from engaging in commercial activities like car leasing. Under the proposed compromise, American Express will be able to own a travel agency – a right that no other bank will get after the reforms.

The banks are expected to continue to press for the right to sell insurance through their branch networks on the grounds that this – as opposed to credit cards – constitutes their main distribution system.

Banco Santander reports 50% pre-tax increase

By Tom Burns in Madrid

BANCO SANTANDER, Spain's most international bank and owner of nearly 10 per cent of Royal Bank of Scotland, reported a 50 per cent pre-tax rise in its 1988 group profits, making it one of the country's most profitable financial institutions.

Consolidated results showed a 31.5 per cent increase in the financial margin, after financial products rose 8 per cent to Pta348.4bn ($3bn) and financial costs were lowered by 4.5 per cent to Pta150.2 per cent. The group's cash flow rose by 32.7 per cent to Pta124.7bn.

Ricardo wins court orders for share disenfranchising

By Nikki Tait

RICARDO, the Sussex-based engines and transmissions design group, which is facing a hostile £20.6m bid from First Technology, has won court orders disenfranchising certain of its shares.

These, it calculates, account for at least 10 per cent of its equity.

According to Ricardo's merchant bank advisers, Schroder Wagg, the shares covered by the court orders are amongst those irrevocably pledged to accept the offer.

When the all-paper offer was first announced, First Technology said that it had bought 14.9 per cent of Ricardo's shares and had irrevocable undertakings to accept in respect of a further 13 per cent.

Three major bundles of shares are covered by the court order: 918,000 shares or 6.3 per cent, owned by the CH Industrials group, another quoted company; 472,000 shares owned by Jocar Nominees; and another 270,000 shares, belonging to IA&N Nominees.

Ricardo, which says that it was aware of some curious movements in its share register for some time sent out various Section 212 notices - *seeking to discover* the beneficial ownership of certain shares - when the bid was announced.

The court orders were secured as a result of replies to these notices, which were not entirely satisfactory.

The IA&N Nominees holding refers to the bundle of shares held by Zurich-based Privatbank, which was subsequently sold on January 30 to Friends Provident.

Yesterday, First Technology said that it was only aware that some questions had arisen on the CH Industrials holding, but believed that it was a matter of technicalities only.

Court orders in this sort of case can be lifted immediately the required information is forthcoming.

MFI sets its sights on autumn flotation

By Clare Pearson

BUOYANT UK equity market conditions have prompted MFI Furniture Group, formed in a management buyout from Asda superstore group 15 months ago, to accelerate plans to come to the market. The earliest date for the flotation, expected to be worth between £800m and £1bn, is now September.

"Recent events in the market have led us to believe we should be ready to come in the autumn assuming it still looks a good idea nearer the time," Mr John Randall, finance director, said yesterday. Previously, MFI had been expected to come in the spring of next year.

Citicorp Scrimgeour Vickers looks a strong contender to be appointed as broker to the flotation. "We have very strong links with them going back many years," Mr Randall said. County NatWest has already been appointed as financial adviser.

Besides market conditions, Mr Randall said an autumn flotation would depend on whether domestic furniture retailer MFI meets internal targets including £100m worth of operating profits in the current year. In the 28 weeks to November 2, operating profits stood at £48.9m.

Asda, which retains a 25 per cent stake in the company, is expected to reduce this when the flotation takes place.

Improvement showing at Whinney Mackay-Lewis

IN THE half year ended October 31 1988 pre-tax profits at Whinney Mackay-Lewis fell from £678,000 to £386,000. The interim dividend is again 1.6p.

Mr Jeremy Mackay-Lewis said the profit was at an improved rate when compared with the whole of 1987-88 (£740,000), and steady progress was being made after the setbacks of the second half of that year following the stock market crash. He was confident for the rest of 1988-89.

The company is a USM-quoted architect and project management consultant. Turnover improved to £3.11m (£3.04m) but profit was held down by increased interest rates. Earnings were 4.3p (8.1p).

Both major subsidiaries had a full workload at present. The new Docklands office had started to operate and it was hoped for a substantial increase in work for that area.

The purchase of the freehold of the company's West End headquarters had proved an excellent investment, the chairman said.

Radio City

Mr Barry Marsh, chairman, told the annual meeting of Radio City that the board expected to resume the payment of interim dividends in respect of the half-year to March 31 1989.

Panel blocks Wembley in current bid for T-Line

By Clare Pearson

THE Takeover Panel has debarred Wembley, the diversified leisure group, from joining the current bidding for industrial holding company Thomson T-Line, which is under seige from a £185.7m hostile bid from Ladbroke Group.

At the Panel's request, Thomson T-Line over the weekend underlined to shareholders that the offer by Ladbroke was the only one on the table, by announcing that it was not having talks with any potential offerors.

It added that in the Panel's view, Wembley ruled itself out of the current bidding when it said on January 25 that it did not intend to make an offer "at this time". This was after Hanson, the UK conglomerate, emerged as a 5 per cent shareholder in T-Line.

T-Line emphasised that Wembley indicated last Wednesday it would have been prepared, subject to certain conditions, to make an offer of 95p in cash and 113p in Wembley shares, "significantly higher" than Ladbroke's final cash offer of 90p per share.

The Ladbroke offer is open until February 15. Thomson has not yet rejected the final terms, which were increased from 80p per share last month.

Bremner stake

Mr R B Clapham, a Glaswegian property developer, has increased his stake in Bremner, the stockbroking and property group, to 5.1 per cent.

Mr Dennis McGuinness, chairman of Bremner, said he understood Mr Clapham was a long-term investor who had increased his holding above the notifiable level.

Stanley Miller

Stanley Miller, the Newcastle-based property and building group, said that it had been visited by the Stock Exchange's insider dealing group and had co-operated fully with an investigation into dealings in its shares in a period of 1988.

However, it is understood that the investigation found no irregularities and Stanley Miller said that, as far as it was concerned, the matter was closed.

Cambrian settles

Cambrian & General Securities, the UK investment trust once a vehicle for convicted US insider trader, Mr Ivan Boesky, said it had settled the class actions bought against it in the US courts.

The actions were based on Mr Boesky's alleged insider trading activities.

Last week, US-based Leucadia National Corporation won control of Cambrian, after a lengthy bid battle.

Tapping a market is the key to success

Philip Coggan examines the progress made by Explaura on its limestone project

WHEN Explaura Holdings floated on the Unlisted Securities Market in September 1987, it looked like a stock which would only appeal to hardened speculators.

The company had been used as a shell for a variety of hopeful enterprises, from tea producing in Sri Lanka to gold exploration in Spain, with little success.

Its new venture, a limestone quarry in Newfoundland, was a start-up company, a category of stock which had previously been dismally unsuccessful on the USM.

The project had been a long time in the making. The Newfoundland Colonisation and Mining Company, formed in 1889, acquired the land in return for agreeing to build telegraph lines across the island.

However, it was not until the 1980s that the Canadian government agreed to the creation of the quarry and the Newfoundland company reversed into Explaura, then an over-the-counter stock.

So there were plenty of risks to deter investors from supporting the Explaura offer and when the flotation was rapidly followed by the October crash - and the shares ended 1987 at half their flotation level of 32p - those investors who did apply have regretted their decisions.

Now, 18 months later, much of the hard work has been done. The first rock will be produced at the end of the summer. The key question that *remains to be answered* is whether Explaura can find a market for its aggregates and supply customers at an attractive price.

The quarry has been built at Lower Cove Bay, on a barren part of the Newfoundland coastline, so remote that Mr José Boves, the director in charge of the construction project, had to build a house on the clifftop because the nearest village was so far away.

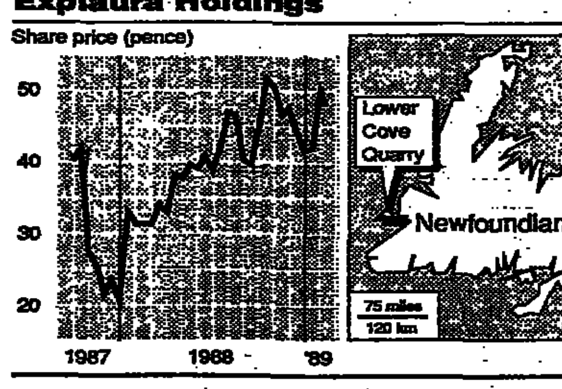
Constructing the dock was the most daunting task. Five caissons, concrete structures which looked from above like waffles, were towed to the site by tugs. Each was six storeys high with sides measuring 100 feet by 80 feet.

The bottom of the cove was carefully levelled with a mattress of coarse stone and the builders waited for a calm day so that they could ensure that the caissons were placed exactly in line. Each was then weighed down with 10,000 tons of aggregates.

Another tricky operation was the building of the downhill conveyor which will take the stone down the cliff face to the dock from the stockpile. This 1,200-foot-long conveyor had to be built down the equivalent of an 18-storey drop and match up precisely with the ship loader on the dock below.

This was done so successfully that each of 64 anchor bolts on the tower that supports the loader fitted perfectly *without a single bolthole needing to be enlarged*.

Explaura Holdings



The third major task was the transport and reassembly of a giant stacker which will be used to make a stockpile of finished products that will be 70 feet in height.

Quarrying does not simply involve blasting rock and loading the rubble into a giant skip. The rock must be crushed several times before it reaches the right size to be useful for construction. It must be blended to meet the customer's specifications and washed to remove surplus grit and soil.

The one thing that is certain is that Explaura has plenty of rock to quarry. Proven reserves at the site are some 1.2bn tons, more, Explaura says, than all the "super quarries" in the UK put together.

Obviously, the key question is whether Explaura can find the customers for its products. Explaura is now even more confident than it was at the time of flotation.

A marketing and sales report it commissioned found that its planned output by 1991 - 4.2m tons per annum - was less than the forecast growth in the north-eastern US market. "In other words," says Mr David Finch, chairman, "we won't have to take market share from anyone else."

The break-even level is just under 1m tons per annum and Explaura believes it should surpass that production figure in 1990. Only then is it likely that profits will start to come through.

Explaura also argues that the long-term outlook for limestone demand appears to be healthy. The US government is offering funding for state infrastructure repair programmes; limestone is a vital element in desulphurisation if the US attempts to combat the problem of acid rain; and the Canadian government has asked Explaura to quote on a contract for the crossing to Prince Edward Island from Nova Scotia.

The company is also confident it can tap into the UK market. Although the cost of transporting aggregates is normally one of the chief cost elements, Explaura has the advantage that it can transport by ship. With shipping rates still very low in historical terms, the company believes it can compete in the UK market.

Despite Explaura's optimism, some observers are sceptical. "I find their plans quite sketchy on marketing" says Mr Khalid Nazir, a building materials analyst at Kleinwort Grieveson. He thinks that the plans to attack the UK market are ambitious because of the sheer size of the distances involved.

Even in the US, Mr Nazir has his doubts about Explaura's competitiveness. "Trucking costs for aggregates are around 10 to 11 cents per ton mile, whilst shipping costs are below 2 cents per ton mile," he says. That obviously means that Explaura's costs will be competitive over distances up to five to ten times further than inland quarries.

But, says Mr Nazir, the nearest main US market, Boston, is 1,150 miles away, so quarries within, say, a 200 mile radius of the city will be more competitive than Explaura.

There may be scope, says Mr Nazir, for Explaura to tap US coastal markets where the onland stone is either not good enough or too far away. He cites as an example the Gulf Coast of the US, although even there other stone producers are already addressing the market.

So although Explaura has achieved the first part of its project - building the quarry - there is plenty of marketing work to do before the scheme can be classed as a success.

SHARE STAKES

Aitken Hume International - Fiduciary Management Services bought holding up to near 3m ordinary (6.1 per cent).

A.J. Archer - Electra Investment Trust sold 273,000 ordinary and now holds 1.5m (6.49 per cent).

Armstrong Equipment - Caparo Group purchased 1.5m shares bringing holding to 7.28m (18.8 per cent).

Baggeridge Brick - Tribune Investment Trust sold 250,000 reducing holding to 2.07m ordinary (10.49 per cent).

Carclo Engineering - Andrew Weir & Company sold 1.5m shares and left with 600,000 (1.4 per cent).

Chieftain Group - County NatWest Small Companies Exempt Fund is beneficial owner of 434,000 shares (5.26 per cent).

Cray Electronic - Provident Mutual Life interested in 8.5m shares (9.82 per cent).

Five Oaks Investment - Govett Strategic holding is 8.7m ordinary (18.46 per cent).

Harland Simon - Mountain Dew acquired 159,000 ordinary giving it 3.04m voting (22.09 per cent).

Hicking Pentecost - Telfos sold 100,000 shares at 84p reducing holding to 959,000 (14.96 per cent).

HunterPrint - M.C. Hunter bought 125,000 ordinary increasing Hunter family holding to 4.06m (21.04 per cent).

Imtech Group - Bolton House Securities sold 750,000 and interested in 29.6m shares (13.78 per cent).

Macro 4 Plus - W.S. Macmillan purchased 25,000 ordinary and holding now 3.18m (14.43 per cent).

Ryan Hotels - Following a rights issue and renunciation, Paul Ashdown now beneficial owner of 365,000 ordinary (0.7 per cent). Subsequent to the transaction, Seven Wonder World Tours, Friendly Inns and the Ashdown Family, other than Paul, hold 6.47m ordinary (12.7 per cent) and 4.19m *participating* preference (99.74 per cent).

Scottish Mercantile Investment - South American Finance and Investment group owns 3.99m shares (49.93 per cent), and in turn is wholly-owned by Anstalt fur Handel und Anlogen, of Lichtenstein.

Select Appointments - R.W. Klapp, chairman and managing director, sold 750,000 ordinary, reducing his interest to 7.4m shares (35.9 per cent).

Selective Assets Trust - Equitable Life Assurance Society bought 950,000 ordinary giving holding 2.05m (7.08 per cent).

Shaftesbury - Joseph Levy Charitable Foundation has acquired 560,000 ordinary and total holding now 1.63m (3.72 per cent).

Shandwick - Funds under management of Baillie Gifford interested in 1.32m shares (7.85 per cent).

Sims Food - G.E. Shouler, director, sold 330,000 shares. He retains 1.22m (5.74 per cent).

Sovereign Oil and Gas - Norwich Union Life Insurance acquired 500,000 ordinary bringing holding to 3.73m (6.7 per cent).

Triplex Lloyd - Britannic Assurance *no longer interested* in 5 per cent or more.

Williamson Tea - CDFC Trust increased holding to 396,575 shares (17.33 per cent).

Young & Co Breweries - J.A. Young, T.B. Young and J.G. Young, as trustee of the Ram Brewery Trust, disposed of 60,000 non-voting shares at £4.30. Holding now 262,600 (5.06 per cent).

Jas Crean formal offer despatched

James Crean, the Dublin-based industrial holding company, despatched its formal offer to shareholders in Inishtech Capital Fund, a venture capital company listed on both the Dublin and London stock exchanges.

The offer is designed not to succeed since Crean already owns 71 per cent of Inishtech and wants to retain the separate stock market quotation.

Crean's offer - 800p for 3 A ordinary shares and one preference share in Inishtech - is below the market value of Inishtech shares and is not being recommended by independent Inishtech directors.

FT Share Service

The following securities were added to the Share Information Service in Saturday's edition:

EW Fact (Section: Newspapers & Publishers).

Land Securities 10% 1st Mortgage Deb. Stk. 2030 (Property).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Excalibur Jewellery, Howard Holdings.

Finals- Chestergate, Fleming Claverhouse, Impala Platinum.

FUTURE DATES

Interims-

Abingworth	Feb. 14
Ransom (William)	Feb. 9

Finals-

ABW	Mar. 1
Davies & Metcalfe	Mar. 22
Inv Trust of Guernsey	Feb. 10
Musterlin	Apr. 6
Ward	Feb. 6

FINANCIAL TIMES STOCK INDICES

	Feb. 3	Feb. 2	Feb. 1	Jan. 31	Jan. 30	Jan. 27	1988/89 High	1988/89 Low	Since Compilation High	Since Compilation Low
Government Secs.	88.92	88.67	88.45	88.43	88.57	88.78	91.43	86.18	127.4	49.18
Fixed Interest	97.45	97.10	97.17	97.17	97.09	97.12	98.67	94.14	105.4	50.53
Ordinary	1689.0	1667.8	1665.4	1674.4	1666.4	1638.9	1689.0	1349.0	1926.2	49.4
Gold mines	166.9	167.1	167.0	169.3	170.6	173.9	312.5	160.7	734.7	43.5
FT-Act All Share	1067.88	1053.04	1050.20	1054.97	1051.10	1034.11	1067.88	870.19	1238.57	61.92
FT-SE 100	2069.9	2043.4	2039.7	2051.8	2042.9	2005.9	2069.9	1694.5	2443.4	986.9

FINANCIAL TIMES SURVEY

While one junior market has grown to be a lusty youth, the other is not quite so healthy, observes Philip Coggan. Buy-outs and BES creations ought to bring a steady trickle of hopeful entrants to the USM, but the Third Market seems to require a change in its rules.

A place for the children

THE UNLISTED Securities Market reaches its ninth birthday this year. It survived a sickly first few years but, despite one or two nasty scrapes, it has grown to be a lusty youth. Last year, it picked itself up, dusted itself off and started all over again after the trauma of 1987's stock market crash.

The USM's sibling, the Third Market, is not quite such a healthy infant. In its first two years, it attracted just 57 companies, compared with the early optimistic forecasts that as many as 200 companies might join in the first year.

But although the Third Market has had a slow start, everyone now seems to accept that there is a proper place for junior stock markets on the London exchange. The institutions that are forbidden by their trustees to invest in junior market stocks are now few and far between.

The best indication of the health of the USM is that 88 companies joined the market last year, an increase of 16 on 1987. The rate of new company formation seems to have increased during the 1980s and the requirements of the USM – only a three-year trading record – makes the market a natural home for many young, small companies.

The occasional large company entrant – Mrs Fields in 1986, Stanhope in 1987, London Forfaiting last year – may raise the profile of the market but are unrepresentative of the norm. The USM's bread and butter is the small stock raised £2m or £3m that trickles on to the market every week.

Because of this, liquidity remains the problem for both markets. Although there is more market-making capacity than before Big Bang, withdrawal from USM market making by Chase Manhattan, the cutbacks at County NatWest and elsewhere in the City will obviously have an effect on junior market liquidity.

As many investors found to their cost in the aftermath of the the 1987 crash, it can at times be impossible to deal in small company shares. The prices shown on screen become more than usually indicative, and any investor who wants to sell a sizable amount of shares finds that the bid price is far below the screen quote.

The new issue system that was brought in with Big Bang exacerbated the problem of illiquidity by encouraging market entrants to float via a placing rather than an offer-for-sale. Placings concentrate share issues in a relatively small number of institutional hands.

The USM and the Third Market

This can be good news for the companies concerned – since institutions are more likely to stump up extra funds in rights issues – but it often causes frustration for small investors, who can only buy shares when dealings start. Since the most attractive stocks normally go to a premium, that creates a two-tier price system biased against the small shareholder.

Add in the fact that the bulk of USM company shares are normally in the hands of a few founders, and the liquidity problem is increased. Last year, the average number of shares traded on the USM each month was 437m – compared with the equivalent figure of 801m in 1987. This decline was even more marked than the fall in turnover on the main market, which caused so many job losses across the City.

Mr Brian Winterflood, nicknamed "Mr USM" in his days at jobber Bisgood Bishop and now running Winterflood Securities, argues that a return to a physical market-place would help to improve liquidity. He also wants the placing rules to be amended so that market makers get a much larger percentage of any new issue.

Occasionally, however, illiquidity can be a good thing. When markets are falling quickly, investors tend to sell the more liquid alpha and beta stocks when they want to reduce their exposure to equities.

And most institutional investors buy small company stocks with their eyes open. They know the shares are illiquid – but they hope that the companies will eventually grow into larger, more liquid stocks.

However, it can hardly be said that the USM has proved a wonderful long-term investment. The Datastream USM Index, 100 when the market was founded in 1980, ended 1988 at just 126.2. The net gain in the index over the whole of last year was 1.7 per cent.

A lot has depended on the kind of USM stocks selected. Electronics and oils were two of the most significant sectors in the early days and their poor performance weighed heavily on the index. In recent years, many overseas stocks, such as Mrs Fields, Borland International and Tribble Harris Li, have been dismal investments. Foreign companies make up the third largest USM sector, ranking behind only property and the catch-all miscellaneous group.

Nowadays, the USM is home to a wide spread of companies with flourishing sub-sectors such as media groups, brewers and motor dealers. Excluding the miscellaneous category, only property constitutes more than 10 per cent of the market's capitalisation. However, there are a further six sectors which make up more than 5 per cent of the market each.

This diversity allows USM investors to concentrate on more solid virtues than the kind of speculative stocks that grabbed all the attention in 1987. Last year, the radio companies stole the show, taking many of the top 10 places in the table of leading share prices, thanks to advertisers' growing use of the medium.

Flotation on the USM also allows acquisitive companies to use one of the most attractive forms of takeover consideration – quoted paper. Owners of private companies, in particular, sometimes face capital gains tax problems if they are paid for their companies in cash. If the owner is paid with shares in a stock market company, such tax problems are avoided and payment with shares also allows the acquirer to "lock in" key executives at the target company.

Hoare Govett figures show that acquisitions by USM companies in the year 1987-8 (October-September) were worth £850m – a good total, considering that there are only 400 or so companies on the market.

Even the Third Market has proved a useful money-raising forum for the few companies that have joined it. By the beginning of 1988, £87m had been raised by Third Market companies, either to finance acquisitions or through rights issues.

What of the future of the two junior markets? Apart from its early years, when its growth was slow, the USM has been operating in a growing economy and in generally buoyant equity markets.

A recession in the UK might dry up the flow of companies on to the market, and threaten the viability of some of the weaker companies on the tier. So far, the number of USM failures has been thankfully limited; a spate of problems might damage investor confidence in the market. However, the mid-1980s enthusiasm for management buy-outs and the creation of Business Expansion Scheme companies, ought to ensure a steady trickle of hopeful entrants.

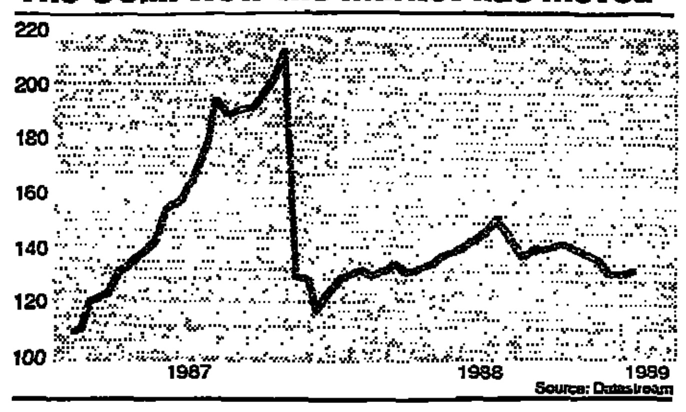
The Third Market obviously seems to need some sort of alteration in its rules to encourage more small companies to join the tier. So far, sponsors have been reluctant to take on the responsibility of taking on small companies, when the risks involved far outweigh the likely fees.

Only if the rules are relaxed will the hoped-for flood of over-the-counter companies join the market. Although relaxation would increase the risk of corporate failure, it would ensure that OTC investors would not be trapped with unsaleable shares in unquoted companies.

CONTENTS

Illustration: Ann Chasseaud

The USM: How the market has moved



Source: Datastream

NEW ISSUES

Plenty of incentive

THE FEARS expressed at the time of the crash proved to be unfounded. Companies joined the Unlisted Securities Market in 1988 in even greater numbers than they did in the previous year.

Figures produced by Peat Marwick McLintock show that 88 companies joined the second tier in 1988, compared with 72 in 1987. That performance was set against a decline in main market new issues from 129 to 104 last year.

Although share prices turned in a fairly lacklustre performance in 1988, there was no sign of the prolonged collapse in share prices which was forecast by some following Black Monday. Price/earnings ratios were still respectable by historical standards, so there was plenty of incentive to float whilst the UK economy was still buoyant.

The largest company to join the USM during the year was London Forfaiting, the trade finance group, which raised a record £81m in its February offer-for-sale. At the time, this was a brave flotation by London Forfaiting since it was not long after the crash, and companies linked to the financial sector were distinctly unpopular with investors.

However, London Forfaiting had the advantage of an impressive profits record – pre-tax profits were £9.2m in 1985 and the company came to the market on a forecast of £16.5m in 1987 – and it also had the backing of British & Commonwealth, the financial services group chaired by Mr John Gunn, which owned a 85 per cent stake before the flotation.

In the end the offer was marginally over-subscribed but a weak stock market meant that the shares ended first day dealings at a discount to the offer price.

London Forfaiting was one of a number of companies to join the market in the first quarter, having previously postponed their flotation because of the stock market crash. But there were only two other full offers-for-sale all year – MMEC and Broadwell Land – and they had markedly different receptions.

MMEC's offer can only be described as a flop. The group – its full title is Merchant Manufactory Estate Company – is a property investment and development company headed by Mr Paul de Savary, the brother of the more famous yacht-owner Peter.

However, Mr Paul de Savary had been a director of a company that went into liquidation and Mr Mark Keegan, the chairman of MMEC had been a director of two such companies. That worried some investors. In addition, the offer price valued the company at a considerable premium to its net assets.

For whatever reason, institutions backed away from the issue and nearly 66 per cent was left in the hands of the underwriters. A tentative takeover approach by Finlan, the properties and materials handling group, was subsequently rebuffed by the board and, at the end of the year, the shares were languishing at 68p, well below the 93p offer-for-sale price.

Broadwell, in contrast, floated in early July. This was at a time when investor confidence – before the growing UK trade deficit began to knock share prices – was reasonably buoyant. Its offer was 7.3 times subscribed and its shares rose on first day dealings to a healthy 20p premium on the 155p offer price.

The company, which was originally funded through the Business Expansion Scheme, is best known for a 750,000 square foot development at Plantation Wharf in London's Battersea.

Despite Broadwell's success, the vast majority of companies once again chose to join the USM through a placing. The placing route was chosen by 71 of last year's entrants, compared with the 3 offers and 14 introductions.

The change in rules which accompanied Big Bang – setting a new upper limit of £5m on placings – seems to have permanently shifted the pattern of the new issue market. The new ceiling seems more than enough to satisfy USM applicants' demands: Peat Marwick figures showed that last year's new issues raised an average of £3.4m – well below the placing limit, although above the £3m pre-Big Bang ceiling.

Placings are seen as good news for the companies since they are much cheaper and less risky than offers-for-sale. But they are not so popular with small investors who are effectively excluded. Mr Brian Winterflood, the market maker nicknamed "Mr USM", who now has his own firm Winterflood Securities, wants the placing rules changed to bring back the old system of co-distributors. That would spread new issue shares in wider hands.

In the long run, too narrow a placing of USM new issue shares may handicap the market. A lack of liquidity will discourage institutions from taking shares in placings and dry up the flow of new companies.

However, in the medium term, there are reasons to believe that the stream of new issues on to the USM is set to continue. Business Expansion Scheme rules give the first reason. Although the best-known time limit in the BES is the five year rule, under which shareholders only get tax relief if they keep their shares for that period, there is also an important three-year rule.

Companies must wait for three years before joining the USM or main market if they want to keep within the rules of the scheme. So those companies which were established in the 1985/6 tax year are now eligible to join the USM.

There may also be a steady supply of former management buyouts on to the USM. MBOs became widespread in the mid-1980s and the nature of such deals is that both the management and the venture capitalists want to float as quickly as possible so that their investments are in quoted shares rather than in the less liquid form of private company stock.

Although, in the medium term, the flow of companies on to the USM looks assured, Mr Geoffrey Douglas, the analyst at brokers Hoare Govett, thinks the number of flotations in the first half of the year will be limited. This is because new issues take a few months to plan and the mood of the markets in late 1988 was fairly sombre.

The factor that is likely to have the greatest influence on new issue flow is the economy. Companies normally need to show a record of fast growth in the period leading up to their flotation – and a recession would limit the number of companies able to demonstrate such growth.

So hopeful company directors will this year be keeping one wary eye on Mr Nigel Lawson and the other on the FT All-Share, as they wait for their chance to join the market.

Philip Coggan

LEADERS AND LAGGARDS: the best and worst performers of 1988

Media provides the stars, US stocks trail

IT PAID to invest in the media in 1988. Of the top 10 performing USM shares of the year, seven were in some way connected with radio, television or video.

Even the ninth-ranked Miss World Group owes its place not to the well-known beauty competition but to Red Rose Radio, the vehicle of Lancastrian businessman Mr Owen Oyston, which merged with Miss World last year.

The radio sector was responsible for all of the top four stocks with Crown Communications, the overall best performer, owning London Broadcasting Company (LBC) and stakes in 16 other commercial radio stations. Darling Downs, the Australian media group, has a 22 per cent stake in Crown.

Crown also owns Independent Radio Sales, which places advertisements on radio, and during the year won, with Independent Radio News, a contract to provide the news service for the satellite TV operators, BSB. The only black spot was the blocking, by the Independent Broadcasting Authority, of Crown's attempt to buy Radio Mercury.

Ranked right behind Crown in the list of top 10 performers were Radio City (Merseyside), Piccadilly Radio (Manchester) and Radio Clyde (Glasgow). The reason for this re-rating in the sector is the growing conviction among advertisers that radio provides value for money. Television is extremely expensive and is faced with the problem of "zapping" – when viewers video programmes and then fast forward the tape through the commercials.

Radio's share of UK advertising revenues is around 2 per cent, and that indicates that there is plenty of potential for growth for the medium to catch up with the US (10 per cent) and Canada (13 per cent).

Among the other media-related stocks in the leaders list were Colorvision, the television retailer, and Cityvision, the video retailing group.

Top-performing share lists are normally dominated by takeover candidates and shell companies. This year shells were harder to find. Associated Energy Services is that good old-fashioned hot stock – the "management situation". The company, which maintains boilers and distributes catering equipment, reported a decline into losses in the first half of its trading year – not an encouraging background for the share price.

But the key to the rise last year lies in the 29.9 per cent stake now owned by Cleves Investments, the financial services group. Investors hope that Cleves, which has taken management control, will steer the group into new areas.

Shares in Explaura Holdings, the mining start-up company, recovered after suffering unduly during the crash. Even so, the shares, at 41p, are not much higher than the original 32p flotation price.

In general the leaders of 1988 showed less dramatic rises than those of 1987 – only the top three 1988 leaders would have squeezed into 1987's top 10 list. No share managed the kind of meteoric rise achieved by Acsis Jewellery in 1987: at one point that year, Acsis's share price had risen by 2,400 per cent. But at least most of 1988's leaders owed their place to trading, rather than speculative factors, indicating that the share price increase might be sustained, rather than ephemeral.

Among the laggards, Mrs Fields stands out, proving the wisdom of those investors who boycotted the new issue when it joined the USM. The cookie company neatly illustrates how two particular sectors had difficulties last year: US companies, which have so far failed to take off on the junior markets, and retailing, which provided some of the main market's worst performers.

Apart from Mrs Fields, five other companies in the laggards list are US-based or have substantial US interests, including the second worst-performing share of the year, Tribble Harris Li.

The architecture and design group was first hit by staffing costs, which caused its profits for the year to November 1987 to be lower than the previous year's, and it then announced an interim loss of $1.65m in the following year.

Pavion International, the US cosmetics manufacturer, has for some time had a Wet'n'Wild reputation to match the name of its cosmetics range. Controversy has centred on the hefty remuneration accorded to Mr Stanley Acker, the American whose business reversed into the former Sangers, a UK photographic company, in 1985.

Remuneration for shareholders has certainly not been generous – and the stock earns the dubious privilege of being in the laggards list two years running. By the end of 1988 the share price dropped to 2.75p as the company revealed a pre-tax loss last year of £5.42m after exceptional items.

When Orchid Technology first came to the market, the placing had to be shelved because of investor resistance. Eventually, Phillips & Drew got the issue away and the company duly quadrupled its profits in its first year on the market. But in 1988 profits declined just as dramatically and the shares fell with them.

To round off the list of sorry tales from across the Atlantic, URS International, the architectural and engineering consultancy, had a dispute with its auditors which caused the shares to be suspended while the argument was sorted out. Eventually URS's profits of $635,000 were revealed, well below the $2m forecast on flotation. In the first half of 1988, things were even worse – the company recorded a pre-tax loss of $892,900 and was expected to record a full year loss.

It is hard to say exactly why so many US USM companies have done so badly. Some have been affected by the decline in the dollar, but not all. Some have been in high-risk sectors, but not all. Perhaps there is some grounds for supposing that high-quality US companies will list their shares in the US, not the UK, and thus those US companies which list here will be, on average, of lower quality.

Among the British stocks, shares in Memcom International, the electronic filing equipment manufacturer, must rank as one of the worst investments of the past four years. You could have bought them for 320p in early 1985; they were trading at 12p by the end of last year.

The company depended to a large extent on selling its products to the Middle East and thus suffered when the oil price slumped, thereby reducing Arab buying power. Boardroom changes and refinancing plans have failed to stem the losses; the company missed the seven month deadline for reporting its figures to April 30 1988.

Strauss Turnbull was recently appointed as brokers and the company was, in January, still in the process of organising a refinancing which would accompany publication of its results.

Philip Coggan

Leaders and laggards of 1988

TOP 10 (PERCENTAGE RISE)	
Crown Communications	409
Radio City 'A'	225
Piccadilly Radio	218
Radio Clyde	155
Associated Energy Services	150
Cityvision	140
Colorvision	120
Miss World Group	118
Polytechnic Electronics	115
Explaura Holdings	113
BOTTOM 10 (PERCENTAGE DECLINE)	
Mrs Fields	76
Tribble Harris Li	75
Pavion International	74
Imtec	73
Memcom International	67
Orchid Technology	62
Lysander Petroleum	60
URS International	59
Accord Publishers	57
Coated Electrodes	57

Seven of the top 10 were connected with radio, TV or video — and radio was responsible for all of the top four. *See also page 4*

SPONSORS

Reshuffles destabilise the line-up

LEAGUE tables are invariably of limited use, but a list of the top USM sponsors of 1988 is in particular need of caveats.

First, no stockbroker or bank has a significant market share. Instead, the USM market is spread far and wide between minor players, most of which are responsible for two or fewer issues.

Second, by measuring USM sponsorships only, the list is no guide to the overall number of small companies – many of which may be full list debutantes – a house may have been nurturing. And, of course, a league table gives no indication of how profitable their involvement is in the new issues market.

Even so, events since the turn of the year have thrown the existing configuration into a state of flux. The most important development, potentially, has been the departure of a number of small-companies specialists from ANZ McCaughan Securities, previously known as McCaughan Dyson Capel Cure, which has been far and away the lead sponsor for the last three years.

ANZ McCaughan, which dismissed six of its staff from its corporate finance and sales departments last month, and has since lost a number of other individuals, says it is aiming to build a new small companies department. But Mr Russell Middleton, the company's managing director, admits that this may not prove viable.

The corporate finance and sales staff who were dismissed, it is believed, after they put together a management buy-out proposal which proved unacceptable to the parent company, may, moreover, resurface either independently or at another stockbroker.

There are other developments since the turn of the year which have destabilised, though not necessarily overturned, the 1988 line-up. Chase Manhattan Securities has closed down most of its equity side – although obviously this does not preclude Chase's corporate finance department from bringing companies to the market using someone else as the sponsoring broker.

Meanwhile, County NatWest WoodMac has recently announced a rationalisation of its market-making activities involving the dropping of those USM companies that it does not research and which have no other link with other parts of its organisation. Though this need not have an impact on its sponsoring activity, it does lead one to pencil in a question mark, especially given other well-documented turmoil at County NatWest recently.

Though this does not emerge clearly from looking at the list of 1988 leaders, it is certainly not cast in stone that the better-known London banks or brokers should always feature in the top 10.

Debutantes are not gravitating towards the biggest houses

Regional brokers Albert E. Sharp and Stock Beech, for instance, exceeded the involvement of the likes of Barclays de Zoete Wedd and Hambros Bank. Meanwhile, the somewhat obscure stockbrokers Greig Middleton and Jacobson Townsley were barely behind the main players, with two issues apiece.

So it is clear that debutante companies are by no means gravitating towards the biggest houses, and there are factors which indicate that they are getting less, rather than more, likely to do so. Mr Chris Hawkley, a corporate finance executive at Albert E. Sharp, the Birmingham broker, is certainly a firm believer that the tide is turning in his direction.

"First, many of the houses in London are reviewing their commitment to small companies. Second, we're cheaper because we have a regional cost-base; and, third, we can supply that unquantifiable extra, the personal touch," he says.

He adds that, aside from it being cheaper for them to use a local organisation, companies may also pick this option for reasons of regional pride. He believes this to be particularly true of some of the smaller companies that were spawned in the economic renaissance of the West Midlands during the mid 1980s.

Despite a de-emphasising of small companies in some parts of the City, statistics for new-issue volume show pretty clearly that there was still plenty of sponsoring business around in 1988.

Figures compiled by accountants Peat Marwick McLintock show that, even in less-clement market conditions, 88 companies joined the USM in the course of the year. This total was 17 per cent higher than in 1987 – although there must have been some benefit from issues held over after the stock market crash. At the same time, Hoare Govett points out that the total USM "spend" on acquisitions was a healthy £0.8bn.

This last figure is probably a more important indicator of the attractiveness of the new issues market to participants. Though nobody likes to admit it, the general opinion is that the time devoted to a USM sponsorship will not be justified by the fees. It is therefore a pressing consideration that the company sponsored is one that will expand and make acquisitions, and so provide *follow-on fees.*

Of course, the prospects for bids and deals on the USM in the current year are not so good. High interest rates are likely to result in the short-term arithmetic being less attractive, while using paper may be harder for some both from the acceptability viewpoint and in terms of dilution.

This outlook can only add to the more cautious and conservative approach already adopted by sponsors since the pre-crash days, when almost any new issue could be got away at a premium.

With a few notable exceptions, most new issues of last year were priced in what was seen as a sensible manner. And investors report a far greater attention on the part of sponsoring brokers to keeping the purchaser informed.

"Pre-crash, nobody quite got away with sending a carbon copy of the prospectus six months after the launch, but it sometimes got pretty near to that," remarks one fund manager. "These days, sponsors are much better at keeping one informed."

Clare Pearson

USM sponsors year by year

1986	Issues
Capel-Cure Myers	11
J. Henry Schroder Wagg	3½
Brown Shipley	3
Hill Samuel	3
Lloyds Merchant Bank	3
Rowe & Pitman	3
Savory Milln	3
Phillips & Drew	2½
Earnshaw Haes	2½
1987	
Capel-Cure Myers	11
Barclays de Zoete Wedd	4
Albert E. Sharp	4
Laurence Prust & Foster Braithwaite	3
County NatWest	2
Phillips & Drew	2
Gilbert Elliot	2
Kleinwort Grieveson	2
1988	
McCaughan Dyson Capel Cure	9
Lloyds Merchant Bank	4½
Laurence Prust	4
County NatWest WoodMac	4
Chase Manhattan Securities	3
Stock Beech	3
Cl.-Alexanders Laing & Cruikshank	3
Albert E. Sharp	2½

Source: Peat Marwick McLintock

PROFILE: THE CONSTRUCTION SECTOR

Investors leave home

CONSTRUCTION companies had a topsy-turvy year in 1988. Business was booming thanks to strong economic activity and the rise in property prices that spread from London and the South-East to the rest of the UK.

But stock markets tend to concentrate on future, rather than past, earnings and the rating accorded to the sector fell during the year as investors increasingly anticipated a downturn in the property market.

USM construction companies effectively divide into two categories: the housebuilders and the rest. Of the two, it is the housebuilders that have tended to attract the most interest and produce the best results.

The housebuilders each tend to be concentrated in one particular locality. Banner Homes, for example, is based in High Wycombe and operates mainly in Buckinghamshire and south Oxfordshire. It reported trebled interim pre-tax profits for the first half of 1988, although its shares ended the year just 20p higher, at 93p, than on January 1. The shares were originally placed at 135p just before the crash.

Hey & Croft, which operates mainly in Essex, Suffolk and Cambridgeshire, recorded a 46 per cent rise in interim pre-tax profits – but it, too, found little favour with investors, and its shares ended the year 20 per cent lower than they began it.

McLaughlin & Harvey has two quite separate areas of operation: as a building contractor, it is based in London and Northern Ireland; as a housebuilder, it is based in Kent and Essex. Tay Homes, another regional housebuilder, concentrating on Yorkshire and Scotland, moved from the USM to the main market last year.

All these companies reported excellent figures, but the reason why they fell out of favour with investors was fairly obvious — the nine rises in interest rates after the start of June threatened to knock the stuffing out of the housing market.

A major element in housebuilding company profits over the last few years has been the rise in land values between the time the site was first bought and the time the house was eventually sold. That source of profit would start to dry up in a static or falling property market, although there would still be substantial surpluses to be realised on older parcels of land.

A second threat to housebuilders is that demand for new houses may fall in a depressed property market. Fewer houses built would, of course, mean a smaller turnover for the builders and, combined with the shrinking of margins caused by falling property prices, the net effect could be substantially lower profits.

Any companies that borrowed heavily to buy land at inflated prices could be really badly hit – and could face the threat of liquidation, as some did in the property slump of 1973/4.

But it could be argued that investors have taken an over-pessimistic view of the housebuilding sector. Many companies have a substantial cushion in the form of land bought several years ago. Only a catastrophic plunge in property prices could threaten the profits on such sites.

Others believe that the current standstill in the property market is just a temporary hiatus caused by the shock of so many mortgage rate increases in such a short time. Land is still limited and there is still unsatisfied demand for housing; the best housebuilding companies should still be able to prosper.

Also on the USM are a loose group of contracting and construction companies such as Consolidated Tern Investments, Eve Group and Hatfield Estates.

CTI joined the USM in 1985 but slumped into losses only to be rescued by new management in 1987. The new management, backed by Guernsey-based investor Mr Michael Allen, has made a series of acquisitions of estate agents. However, the recent news of estate agent redundancies because of declining business did little to inspire investor enthusiasm for CTI, and the group's shares ended the year trading at around half their peak level.

Eve Group has shed the "construction" part of its name, and now has property development and housebuilding businesses. The general perception of contracting companies is often that earnings are low quality – margins are squeezed because of fierce competition and that profits are lumpy because of the importance of large contracts. In fact, Eve has managed smooth growth in profits and earnings over the last five years.

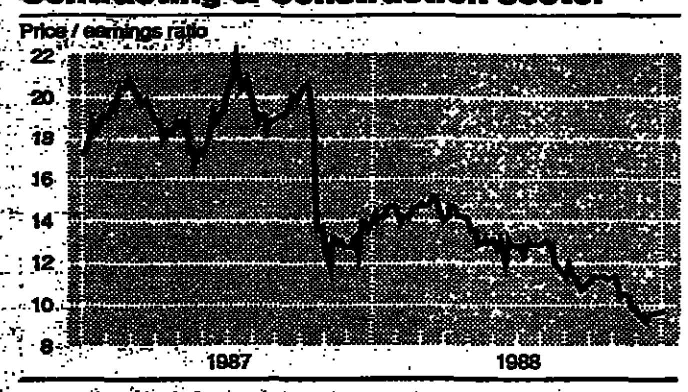
Construction companies may join the market in greater numbers over the next few years. There was a rash of secured contracting Business Expansion Scheme issues in 1985-7 and those companies will start to join the USM once they pass the three year limit set under BES rules.

Among the other companies loosely grouped in the USM construction sector are three shopfitters: Campbell & Armstrong; Plumb Holdings; and Sharp & Law (Chestergate, the interior design group formerly known as Shoralplan, also has some shopfitting interests). By their nature, shopfitters are tied to the fortunes of the retail, rather than the construction sector.

But including the shopfitters, construction is, according to Hoare Govett, the sixth-largest industry sector on the second tier. Together with the property sector, it constitutes 17 per cent of the USM's market capitalisation. So a collapse in property prices would have a severe effect on the USM.

Philip Coggan

Contracting & Construction sector



THE THIRD MARKET

Recruits prove scarce

A FLOP would be putting it too strongly, but certainly the consensus report on the Third Market's first two years of operation must be "could have done better".

The total number of companies that have joined the market so far is just 58 – dismal compared with initial expectations that over 100 would join within the first year.

The rationale behind the market was to provide a forum for those companies that were too small, or too new, to join either the Unlisted Securities Market or seek a full listing. To this end, rules were relaxed allowing companies with just one year's trading record, against three on the USM, to join, and there was no minimum set on the percentage of equity they could release.

The hope was that by being so structured, the Third Market would attract the type of company that had once joined the *ad hoc* over-the-counter (OTC) market, as well as those bred on the Government's Business Expansion Scheme. But, so far, recruits from either of these sources have been few and far between.

Certainly, the demise of the OTC market – now that almost all of its practitioners have either failed to obtain, or have not applied for, authorisation under the Financial Services Act – has left a great number of orphaned companies. But out of this apparently promising pool of potential entrants, so far only 11 have moved to the Third Market.

This is likely to be less a reflection of the willingness of the companies to transfer than of the cautiousness of the sponsors about taking them on. This is understandable, given that many OTC companies are likely always to have been highly risky enterprises, as well as often being constructed with complicated capital structures that are now difficult to unravel.

As for BES recruits, they so far number only six – though it is probably too early to assume their representation will not increase in due course. Since the Government's scheme was established in 1983, it is only now that companies are reaching the end of the five-year qualifying period which allows initial backers to sell their shares and retain their tax relief.

Before the end of this period, although BES companies can have their shares traded on the Third Market and continue to qualify for the scheme, there is little incentive to do so since liquidity will be severely restricted by the fact that original shareholders cannot sell-out without losing their tax relief.

But, whatever the potential, it is hard to escape the conclusion that new issue volume has been less than encouraging to date. The main problem appears to be that the Stock Exchange, when it designed the market, left so much responsibility for monitoring on the shoulders of the sponsors that they are either looking long and hard at a candidate before deciding to take it on, or else deciding it just isn't worth it.

It is not surprising, therefore, to find that only five start-up companies – which clearly demand the most work from the sponsor – have so far stepped onto the market.

The work carried out by sponsors has also increased the costs of joining the Third Market, so that it works out not significantly cheaper than the USM in terms of absolute numbers and, in terms of percentage of capital raised, much higher. This is despite the fact that the Stock Exchange waived initial and annual fees and set advertising requirements at a much lower level.

As with the USM, a list of sponsors shows some 30 names have dipped their toes into the Third Market so far, but few are responsible for more than two or three issues. Moreover, although a number of

Continued on next page

LIQUIDITY

Market makers missed

IF THE health of a market is governed by the number and enthusiasm of its participants, the prognosis is not wholly encouraging for the Unlisted Securities Market.

The problem of limited marketability, which has long been a fact of life for USM investors, came to a head after the 1987 crash. For a few weeks the usual difficulties in buying and selling shares were exacerbated, and some investors found they could not unload their USM holdings.

Since then, the marketability problem has not gone away and may well have been heightened by recent events. Last year, the number of shares traded for USMcustomers rose to a maximum of 591m in August and declined to 413m in December. That contrasts with pre-crash turnover which reached a peak of 1.7bn in July 1987.

In December, Morgan Grenfell pulled out of market making and Citicorp Scrimgeour Vickers reduced its USM book. In January, Chase Manhattan stopped making markets in USM stocks and County NatWest shed a dozen of its USM market makers.

The partial withdrawal of County has a special significance for the USM. When County bought Bisgood Bishop, the jobbing firm, three years ago, it bought a business that was virtually synonymous with USM market making. And although that position was weakened by the departure of key individuals, County continued to make markets in every one of the 400-odd USM stocks.

Now it will make markets only in those companies in which there is a corporate commitment, client interest, research expertise or good liquidity. That will leave just Winterflood Securities, a specialist in USM companies, making markets in all USM stocks.

What effect this will have on marketability – the ease with which shares can be bought or sold – is not yet entirely clear. On the face of it, there is still a fair amount of interest in USM market making.

Last September, before the recent withdrawals, 98 per cent of USM companies had more than two market makers and 71 per cent had four or more, compared with 78 per cent and 38 per cent the year before.

That appears to be a significant improvement on the days before the Big Bang when just one jobbing firm made a commitment to trade all USM stocks and a great deal of USM business was done on a matched bargain basis, usually through the corporate broker.

The recent cut-backs should have eased the pressure on the remaining operators but – given the drop in volumes traded since the crash – the market is still extremely competitive.

What effect will this shake-out have on investors? It could mean a reduction in the amount of independent research as brokers cut back on stocks in which their investment house no longer makes markets.

Furthermore, fewer market makers will lead to a reduction in the capital committed to any particular share. The total number of shares in any particular company that can be carried on traders' books could fall, which would have a marked effect on those shares' marketability.

The partial withdrawal of County NatWest has a special significance

The symptoms of limited marketability are all too familiar for investors in smaller companies. One such is a widening of spreads – the difference between buying and selling prices. The result for the investor is that he or she needs a substantial price rise in a thinly-traded share before there is a chance of taking a profit. Another consequence of a thin market is that price changes may be abnormally sharp.

There is, of course, nothing new about these traits. Wide spreads and volatile price movements are, to a large extent, a feature of the market in smaller companies in which only a limited proportion of equity is available to be traded. On average, Hoare Govett calculated that there is an average of just £7m of free capital per USM company.

Take Sock Shop, for example, which has seen its share price virtually halve to 148p in the three months to January 23. The abruptness of its fall is partially a result of the very thin market in its shares, due to the fact that only 18 per cent of the capital was originally offered for sale.

So which companies are worst afflicted by the marketability problem? One key consideration is the number of shares in issue. Usually, as the company grows in size and issues paper to fund its expansion, the marketability problem lessens of its own accord.

Furthermore, the number of market makers and the normal volume of trade are also key determinants of marketability. These factors are summed up in the Stock Exchange Automated Quotation system (Seaq) tags – alpha, beta, gamma and delta. These are imposed by the Stock Exchange and determine the firmness of the price that market makers are obliged to quote.

Until recently, gamma prices were indicative only. Now they are often shown "firm" but in such small parcels of shares that this change is not particularly significant. Market makers in delta securities are not required to display prices on Seaq.

The vast majority of shares on the USM are classified as gamma shares. There are just half a dozen delta shares and about 40 beta stocks at the larger end of the scale.

But although there is nothing new about limited marketability, investors worry that matters have got worse since the stockmarket crash. At that time, many market makers were caught with a surplus of small company shares on their books, which has since led them to adopt a cautious approach.

One smaller companies fund manager says that he now relies on matched bargains. "A lot of market making in smaller companies is illusory," he says.

Complaints such as these have led to worries that the USM market is no longer sufficiently liquid to survive in its present form. Some participants such as Brian Winterflood favour a return to a physical market-place which could boost the profile of the USM.

But the outcome of this debate is likely to depend on the number of market makers who remain committed to the USM market. And, on that question, the jury is still out.

Vanessa Houlder

INTERVIEW

'Mr USM' lists the problems

NO ONE is better qualified to comment on the problems of the USM today than Mr Brian Winterflood, the former head of Bisgood Bishop. He stood down as boss of market making at County NatWest just over a year ago and now runs his own market-making firm specialising in USM and smaller company stocks.

There is probably only one thing that "Mr USM" – as Mr Winterflood has come to be known since his work in setting up the junior market in 1980 – is happy about in today's post-Big Bang market. That is the relationship his company, Winterflood Securities, has with its parent, the discount house Union Discount. Union lets Mr Winterflood get on with it – an arrangement which Mr Winterflood is in a position to appreciate after all the corporate upheaval at County.

Brian Winterflood in happier days

Otherwise, a note of despondency creeps into Mr Winterflood's normally cheerful voice. Reflecting the former jobber's nostalgia for the camaraderie of the Stock Exchange floor, he has a long list of complaints about conditions in the deregulated market.

He believes that there are too many market makers in smaller company shares. "There are some 27 so-called market makers in USMs," he says. "The problem is that the firms will only take on that role when the broker is 'the shop', ie the sponsor to the company when it comes to the USM. So you end up with a situation where one firm is researcher, distributor, agency broker and market maker to the company."

Mr Winterflood is disturbed about this state of affairs on two counts. First, he finds it difficult to compete with other market makers on this basis: "They have a virtual monopoly in the stock," he argues. "They can concentrate all their fire-power into just one stock. It's difficult for risk-takers such as ourselves – who have to take a position in each stock – to get involved." Second, he believes that this dries up liquidity in secondary stocks.

This is a bigger problem. Activity in USM stocks dwindled to a mere 500 bargains a day during December. It climbed back to about 1,500 a day in January but, according to Mr Winterflood, this is not enough. "There is just no turnover or liquidity in the market," he says. This he attributes to the two-fold effect of the new placing rules (introduced on the day of Big Bang) and the disappearance of a physical market (the Stock Exchange floor).

The need for a real market-place, where brokers and jobbers can actually meet, is a Winterflood hobby-horse. A major part of this must be his unashamed yearning for the old days. More seriously, he believes that the gossipy atmosphere of a market would be healthy for the liquidity and marketability of small company shares.

"At the moment, business in USM stocks is wholly price-driven," he laments. "Shares respond to what's going on in Footsie stocks, which in turn take their cue from Wall Street. But I want to know what the heck GEC and Plessey have got to do with bridal-gowns and garden centres."

Winterflood is talking, informally at present, with others who share his hankering for a market-place: it is not impossible that one day they may come up with proposals for a separate, physical market for small company stocks.

He has always argued that the new placing rules were a mistake. Most new issues on the USM take the form of a placing – whereby shares in the company are sold directly to a handful of chosen investors rather to the public at large via an offer for sale. In a nutshell, the rules make it more difficult than ever for outsiders to get hold of stock.

The point that irked Winterflood most was the imposition of a 2.5 per cent limit on the number of shares that could go direct to market makers. Pre-Big Bang, jobbers were offered no less than 25 per cent of any new issue. Mr Winterflood is actively lobbying the Stock Exchange for a return to this state of affairs.

On the home front, Mr Winterflood is coy about how his business is doing. All he will say is that, after five months, Winterflood Securities is "on target" to break even after its first year.

David Waller

MEDIA COMPANIES

The hand of reform turns up the radio volume

INVESTORS tuning in to the static, hiss and crackle of the junior markets over the past year have been picking up one very clear signal: commercial radio stations are hot stocks.

Four radio companies topped the league of best-performing USM shares in 1988, with five – Crown Communications, Piccadilly Radio, Radio City, Radio Clyde and Miss World (which owns Red Rose Radio) – in the top 10. Shares in all five more than doubled in value during 1988.

Of the other two radio stations on the USM, GWR Group only joined the market in March and Metro Radio shares started trading as recently as December 8.

The rise and rise of local radio is not built on air. The Government's White Paper on broadcasting, published in November, proposed deregulation of the industry. Legislation, which could take effect as early as 1990, will open up three new national commercial radio services, in addition to the BBC. The Independent Broadcasting Authority (IBA) will be abolished and contractors will be allowed to control one national service and as many as six local services.

But investors are not only attracted by the prospect of expanding opportunities for radio companies, they are also looking forward to a continuing period of financial growth, encouraged by the legislative changes, which should make radio stations cheaper to run.

Local radio is already increasing its share of the UK's overall advertising spending of £5.6bn from 2 per cent – against up to 10 per cent in the US and Europe – as advertisers wake up to the value of targeting consumers through increasingly popular commercial radio stations.

Meanwhile, management has improved, producing the audience figures to please advertisers, and, as a result, the profits growth – albeit from a low base – to please shareholders.

Larger stations are also turning themselves from comfortable regional broadcasters into hungry corporate predators.

Crown Communications, which is tipped to pick up one of the three national radio channels in 1990, holds stakes in a number of local radio stations, including 16.1 per cent of Piccadilly, the Manchester-based station. Miss World, the growing leisure group, owns 24 per cent of Piccadilly and 12.4 per cent of the Merseyside local radio station, Radio City, the first commercial station to join the USM in 1982.

Investors are looking forward to a continuing period of financial growth, encouraged by the legislative changes, which should make radio stations cheaper to run

Miss World, which joined the radio sector when Mr Owen Oyston reversed Red Rose Radio into the company last summer, has been mentioned as a possible buyer of Piccadilly but the Manchester station has itself demonstrated an appetite for expansion. Just before Christmas, Piccadilly paid £13.1m for Midlands Radio, a Birmingham and Coventry station which only last April merged with BRMB Holdings, another Midlands radio station, as a prelude to seeking a quotation itself.

The tangled web extends from radio to television and the press.

Last year, Crown and Independent Radio News – an LBC operation which already supplies news to all 46 independent UK radio stations – signed a £70m contract to provide British Satellite Broadcasting's Now channel with news broadcasts.

Meanwhile, Broadcast Communications, a Third Market independent television programme-maker, linked up with The Guardian and Manchester Evening News, when the newspaper publisher took a 14.1 per cent stake just two days after the plans for broadcasting deregulation were published.

For Broadcast, best known for producing The Business Programme and Business Daily on Channel 4, the White Paper can only be good news, especially when combined with increasing outlets for independent TV production, for example through satellite companies.

The Government has set BBC and ITV the target of contracting out 25 per cent of programmes to independent producers by 1992. The White Paper extended this to new channels and TV franchisees, who will be allowed to commission all their programmes from independent production companies if they wish.

These same changes throw more of a shadow over the plans of the USM's two TV programmers, TV-am, the breakfast TV station, and Border Television, smallest of the mainland IBA programme contractors, which has been losing advertising revenue to its counterparts in the south of England.

Border may be able to offset the difficulties of broadcasting to a tiny and static viewing population of 700,000, by selling more programmes outside the far north of England, where it is based, but its area may be threatened by a reshuffle of northern TV stations or just absorbed into a large Scottish franchise.

Both Border and TV-am – which last year was racked by strikes, an unsettled share register, and battles with the IBA over the quality of its output – will have to face up to the possibility of takeover after deregulation, and competition for the valuable franchises.

Before then TV-am, in particular, will have to confront challenges to its undoubted financial success (pre-tax profits up 56 per cent to £7.82m in the half-year to August 1988) from satellite rivals.

Looking ahead a number of years, it does not seem too far-fetched to imagine predatory radio stations plotting to get their claws into the TV companies and so grab a share of both broadcasting media.

Andrew Hill

PROFILE: RANDSWORTH TRUST

A child of the bull market consolidates

RANDSWORTH Trust is a property investment and development company with a portfolio largely based in the West End of London. It was a vigorous property-trading company which thrilled the stock market before the crash of October 1987.

This suggests that the company has completely changed its spots. Yet this is not the case, because what it was seeking to do was use trading activities as a means to provide the base for the growth of the portfolio.

The company now appears to be in a phase of consolidation. It is in the market looking and making acquisitions, but the hectic and aggressive selling that appeared to dominate its activities last year has evaporated. Property sales came to over £150m in the financial year to June 1988.

Gearing has been cut back, and exposure to variable rate debt reduced to around £20m. A major part of its debt is through a 10 per cent debenture stock 2026, of which a new tranche of £36m was issued in January to bring the total up to £135m.

Mr Andrew Nichols, the chief executive, noted that Randsworth's net assets now totalled approximately £200m, and that its crude gearing was about 70 per cent. But significant new property purchases have taken place and these could lift gearing up to 100 per cent.

Such gearing, he conceded, "is probably too much in this market"; so there are likely to be sales of West End property where development has been completed, or where leases have been rearranged to create a higher capital value.

All of this points to a company which, as one Chase Manhattan Securities once put it, has changed from a child of the bull market to a nearly mature investment company. It has all happened with astonishing speed.

Once upon a time there was a USM plant-leasing company called Jayplant. Mr Nichols, once the finance director at Brixton Estate, and Mr David Holland, now the Randsworth chairman but a lawyer by training, moved in during May 1986 and started a transformation.

They used paper to acquire London & Provincial Shop Centres. They acquired Apex Properties. They bought properties from British Land and Mountleigh. They assimilated a property trading portfolio from the Fisons pension fund. They started developments, notably one on Wilson Street in the City of London, later leased to the Stock Exchange. They set up schemes in places within easy reach of London, such as Guildford.

What Randsworth was doing in this early period was turning over properties and seeking to establish a cash flow which would provide a base for the formation of the West End portfolio.

The market loved it, until October 1987. After that, sentiment changed. There was little sympathy with highly geared trading companies. Certainly the Randsworth market price was savaged, cutting off the possibility of the company's using paper to finance further asset growth.

More recently the pendulum has swung back, and the movement of the price suggests that the market has come to look with more sympathy at the Randsworth process of asset growth. By mid-January, its market performance was not out of line with the rest of the sector, although that sector has been lacklustre.

Phillips and Drew, the company's broker, noted that its shares were trading at a 16.5 per cent discount to their current net asset value, and at 31.3 per cent to their estimated net asset value a year hence. But the earlier weakness of the shares gave the Randsworth board the opportunity to buy back the company shares, and they accumulated 15 per cent of the equity.

In its last financial year, when Randsworth made pre-tax profits of £6.5m, nearly half its turnover came from dealing profits. But, for the future, there will be an increasing reliance on net rental income. And in the future there will be more central London acquisitions, drawing on the resources of a balance sheet strengthened by the debenture issues and of an unused credit facility provided by Security Pacific.

These acquisitions are likely to be in the West End of London, rather than in the City where the market has become "overcooked", as Mr Nichols put it. "There are buying opportunities around, but only the stronger companies can afford it. We've not seen any slackening in West End rental levels – there's been no slackening of yields," he said.

Paul Cheeseright

PROFILE: THE BREWING SECTOR

Pubs for the portfolio

BREWERS and the USM: a potent combination, calculated to stimulate the imagination. It suggests small, family-run companies operating in far-flung counties, nourishing the fortunate locals with powerful, amber ales.

In one sense, the reality is not too different. Eldridge Pope has been based in Dorchester for more than a century, and is still run by a Mr Pope. Its Royal Oak ale and Huntsman Brew are local classics. Rooted in what was once Wessex, it is entitled to call itself Thomas Hardy's brewer.

These cosy images cling to other USM brewers, like Gibbs Mew in Wiltshire (chairman: Mr R.A. Gibbs) and Fuller, Smith & Turner, located more prosaically next to the A40 in Hammersmith but still run by Mr A. Fuller. Despite their quaintness, these companies are very much part of the modern commercial world.

The excitements of the takeover arena have not passed them by. Gibbs Mew, for example, is entangled with the Antipodean entrepreneur, Mr Ron Brierley, who has taken a 5.2 per cent stake. Eldridge Pope has a formidable two-tier voting structure, of which the Savoy Hotel would be proud.

Even more out of keeping with the rustic/home brew ambience is the spectacular stock-market outperformance enjoyed by these companies over the last year. The brewers' sector has beaten the market by nearly 11 per cent: but the small companies have done a lot better than that.

Eldridge Pope has beaten the market by a staggering 64 per cent (the shares risen from 334p a year ago to 600p at the time of going to press). Gibbs Mew has outperformed by 22 per cent, Fuller by 30 per cent and Merrydown – the Sussex cider-maker – by 17 per cent. An investment in any of these companies would have been rewarding. Why?

The brewing sector as a whole has been popular over the last year. According to Andrew Buchanan, at Hoare Govett, the stock-market has woken up to the defensive attractions of companies selling a basic human necessity such as beer. But the smaller companies have other charms, such as strong brands and scarcity value, which have made them outperform the bigger brewers.

Another factor is the Monopolies and Mergers Commission's imminent report on the industry. There is a feeling that its conclusions could favour the smaller brewer, insofar as the abolition of tied-houses would create a bigger market for their beers. But more important is the store of property value locked up in the small companies. There was a sudden recognition last year that portfolios of freehold pubs scattered across pleasant parts of southern England were very valuable indeed.

Ron Brierley must have recognised that. The disclosure last June that he had a 5.2 per cent stake in Gibbs Mew sent the company's share price up from just over 200p to 323p in a month. In July, Eldridge Pope let it be known that it was undertaking a property revaluation. At that stage, the shares stood at 400p. By the time the details of the review were made public at the end of September, the shares stood at 600p. (The review produced a £38m surplus, valuing the company at £70m, or 900p a share.)

Fuller last conducted a property review in 1986. But according to Arthur Curtis, finance director, the value of the company's 150 west London pubs and 60 off-licences has risen since then, a fact appreciated by investors who have driven the shares up from 250p to 415p over the last year.

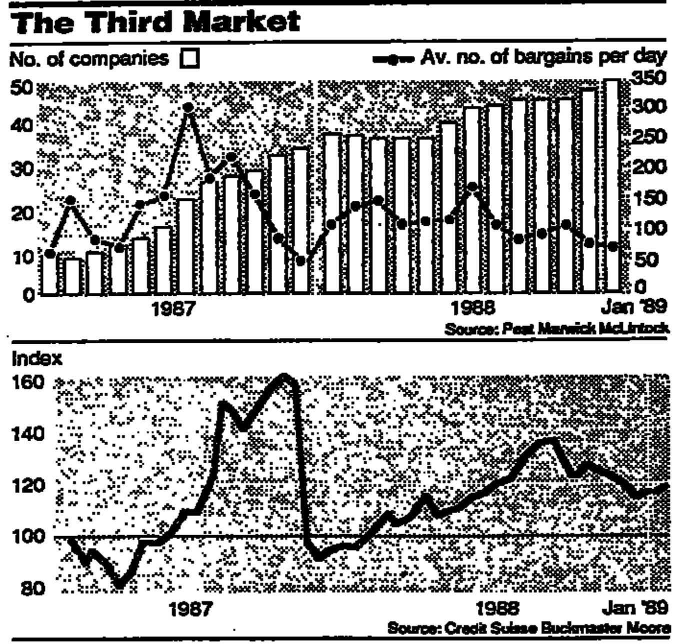
There is more to these companies than just property. Behind the rather sparse results announcements typical of family-controlled quoted companies, there is a lot of activity. Eldridge has teamed up with the Canadian drinks giant, Labatt, to market its lager in the UK. And Gibbs bought 105 pubs from Grand Metropolitan.

In addition to the olde-worlde image, strong profits growth and property backing, these brewers have one other attraction for shareholders: the beer. This is freely available at their annual general meetings, which are better attended than most.

David Waller

Third Market recruits prove scarce

The Third Market



Continued from previous page

well-known names such as CL-Alexanders Laing & Cruickshank, and Credit Suisse Buckmaster & Moore, feature in the list, it predominantly consists of the smallest stockbrokers. This suggests the larger companies are not finding it worth their while to go to all the trouble, and their costs may be too high for the companies.

An equally worrying trend in the market is turnover. The peak number of bargains per day in the months before the stock market crash was 300. By the start of this year it was down to a pitiful average of 85 – and, despite the livelier business being enjoyed by other areas of the London market, has more recently dwindled to a mere 60. Such levels, which are clearly not going to keep any market maker in business, are bound to discourage investors.

But despite all these difficulties, accountants Peat Marwick McLintock, close followers of the market, still find a bright side to the story.

In a recent survey, Peat Marwick points out that although new issue activity is subdued, secondary financing conducted on the market has been surprisingly lively. By the beginning of this year, a total of 24 companies had used the market on 42 occasions to raise £87m through rights issues or other issues of shares to finance acquisitions.

This, Peat concluded, showed the Third Market was fulfilling the aim of its founders in helping small companies to grow their businesses.

Furthermore, it has already spawned a number of success stories, and turned out to be a useful stepping stone for companies later intending to transfer to the Unlisted Securities Market. So far, five companies, including Corton Beach, the already well-known diversified holding company, have transferred to the USM.

According to Peat Marwick's Mr Paul Knott, a great many of the Third Market companies polled have said they believe the benefits they have gained from joining the market have outweighed the costs. They report the move has improved their standing in the eyes of the financial institutions, so that it has been easier to gain bank finance, and it had also been a useful learning experience.

So even though the costs of entry have turned out to be about 10 per cent of the initial funds raised, companies are better-groomed than many of their peers by the time they carry out the relatively simple step of moving to the USM.

Clare Pearson

DIARY DATES

Trade Fairs and Exhibitions: UK

Current
Fashion Fabric and Sewing Fair (0422 51215) (until February 7)
Barbican

Current
International Spring Fair (01-855 9201) (until February 9)
NEC, Birmingham

February 7-9
Textile & Technology Exhibition (01-385 1200)
G-Mex Centre, Manchester

February 9-12
Crufts Dog Show (01-493 7838)
Earls Court

February 12-16
North London Business and Industry Exhibition (0442 217466)
Picketts Lock, London

February 13-15
Information Technology Skills Exhibition-IT (0491 410222)
Olympia

February 15-16
Welding and Metal Fabrication Exhibition-WELDFAB (021 705 6707)
Harrogate Exhibition Centre

February 18-26
Boat, Caravan, & Leisure Show (021 236 3366)
NEC, Birmingham

February 19-22
International Men's & Boy's Wear Exhibition - IMBEX (01-940 6866)
Olympia

February 21-23
Northern Heating & Ventilating Exhibition (01-650 7535)
G-Mex Centre, Manchester

February 28-March 2
International Powder, Granule & Bulk Solids Exhibition - POWTECH (0883 716244)
G-Mex Centre, Manchester

March 7-April 2
"Daily Mail" Ideal Home Exhibition (01-222 9341)
Earls Court

Overseas Exhibitions

February 10-13
International Spring Trade Fair of Household Goods, Crystalware, Ceramics, Silverware & Gifts - MACEF (01-242 7286)
Milan

February 17-19
International Holiday and Travel Fair (Cork 273006)
Cork

February 18-22
International Consumer Goods Fair (01-734 0543)
Frankfurt

February 20-23
Construction and Engineering Exhibition (01-487 3344)
Kuwait

February 23-26
International Sports Equipment Fair - ISPO SPRING (01-948 5166)
Munich

February 28-March 3
Computer and Communications Exhibition - MEXICO COM EXPO (01-977 3474)
Mexico City

March 18-19
International Spring Fair (0875 892222)
Leipzig

Business and management conferences

February 7-8
FT Conferences: The FT European Mergers and Acquisitions conference - Prospects in the Single Market (01-925 2323)
Hotel Inter-Continental, London

February 13
The Institute of Petroleum: North Sea oil and gas-the first quarter century and the next (01-636 1004)
London

February 13-15
Frost & Sullivan: Software maintenance (01-730 3438)
London

February 17
The Economist: 1992 and beyond - Restructuring Europe's financial services (01-839 7000)
Marriott Hotel, London

February 20-21
FT Conferences: Cable television and satellite broadcasting (01-925 2323)
Hotel Inter-Intercontinental, London

February 20
Legal Studies & Services: Mergers & Acquisitions - Major tax, accounting and finance issues (01-236 4080)
Marriott Hotel, London

February 20-22
The FT City Seminar (01-925 2323)
Plaisterers Hall, City of London

February 22
The Industrial Society: Upward communication and a strategy for development, designed for financial professional services sector (01-839 4300)
Central London

February 23-24
British Association of Hotel Accountants: Hotel financial management towards 2000 (01-992 0673)
Hilton International Hotel, Nicosia

February 28
IBC: Protecting and insuring against country risk in trade (01-236 4080)
The Tower Hotel, London

March 1-2
IBC/Money Management Council: The effects of the Financial Services Act on the Financial Services Industry and the Consumer (01-236 4080)
London Press Centre, EC4

March 6
Financial Times Conferences: The London Motor Conference - Manufacturing, Components and the Aftermarket (01-925 2323)
Hotel Inter-Continental, London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

PARLIAMENTARY

Today
Commons: Water Bill, timetable motion.
Motions on Adoption Allowance Schemes.
Opposed private business from 7 p.m.
Lords: National Maritime Museum Bill, third reading.
Petroleum Royalties (Relief) and Continental Shelf Bill, third reading.
Children Bill, report.
Motion on Town and Country Planning Regulations and motions on Adoption Allowance Scheme Orders.
Select committees: Home affairs: subject, future funding of Channel 4. Witnesses: Mr Michael Grade, chief executive of Channel 4 and Mr David Scott, director of finance and company secretary. (Room 15, 4.15 p.m.)
Public Accounts: subject, administrative telecommunications. Witness: Mr J. Anson, second permanent secretary, Treasury. (Room 16, 4.30 p.m.)
Televising of Proceedings of the House: Witnesses: Mr Terence Higgins, MP, and other members of the liaison committee; Social and Liberal Democrats, Scottish National Party and Plaid Cymru. (Room 8, 6 p.m.)

Tomorrow
Commons: Opposition debates on "Congestion and safety in transport" and "The Government's failure to support science and scientific research."
Motions on Local Authority Social Services and Access to Personal Files Regulations.
Lords: Children Bill, report.
Debate on the report of the European Community's committee on visual display units.
Select committees: Education, Science and Arts: subject, the supply of teachers for the 1990s. Witnesses: National Association of Headteachers, Secondary Heads' Association and Headmasters' Conference. (Room 15, 4.15 p.m.)
Members Interests: subject, parliamentary lobbying. Witnesses: Westminster Strategy and Profile Political Relations. (Room 16, 4.30 p.m.)
Committee on Private Bills: Associated British Ports (No. 2) Bill and North Killingholme Cargo Terminal Bill. (Room 6, 10.30 a.m.)

Wednesday
Commons: Debate on the White Paper "Broadcasting in the 1990s: competition, choice and quality."
Motion on the Precept Limitation (Proscribed Maximum) (Inner London Education Authority) Order.

Lords: Debate on "The problems of Sunday trading and legal restrictions."
Question to Government on "Cuts in local services in Bradford."
Select committees: Foreign affairs: subject, Eastern Europe and the Soviet Union. Witness: Sir Geoffrey Howe, Foreign Secretary. (Room 8, 10.30 a.m.)
Welsh Affairs: subject, the Channel Tunnel. Witness: Steer, Davies and Gleave. (Room 19, 10.30 a.m.)
Energy: subject, UK/USSR energy relations. Witnesses: British Coal, Dowty Mining Equipment and John Brown plc. (Room 18, 11 a.m.)
Agriculture: subject, salmonella in eggs. Witnesses: Mr John Macgregor, Agriculture Minister, Mr Richard Ryder, Parliamentary Secretary, Ministry of Agriculture, Fisheries and Food, and Mr Kenneth Clarke, Health Secretary. (Grand Committee Room, Westminster Hall, 4 p.m.)
Employment: subject, work of the Commission for Racial Equality. Witness: Commission for Racial Equality. (Room 20, 4.15 p.m.)
Social Services: subject, AIDS. Witnesses: Mr David Mellor, Health Minister, and Sir Donald Acheson, Chief Medical Officer. (Room 21, 4.15 p.m.)
Transport: subject, roads for the future. Witnesses: Institution of Civil Engineers and the County Surveyors Society. (Room 17, 4.15 p.m.)
Committee on Private Bills: Associated British Ports (No. 2) Bill and North Killingholme Cargo Terminal Bill. (Room 6, 10.30 a.m.)

Thursday
Commons: Debate on the Government's expenditure plans, 1989/90 to 1991-92.
Motion on EC documents on credit institutions.
Lords: Law of Property (Miscellaneous Provisions Bill), committee.
Road Traffic (Driver Licensing and Information Systems) Bill, report.
Elected Authorities (Northern Ireland) Bill, second reading.
Committee on Private Bills: Associated British Ports (No. 2) Bill and North Killingholme Cargo Terminal Bill. (Room 6, 10.30 a.m.)

Friday
Commons: Private members' bills.

FINANCIAL

TODAY
BOARD MEETINGS-
Finals:
Chesterfield
Fleming Claverhouse
Impala Platinum
Interims:
Excalibur Jewellery
Howard Hldgs.
DIVIDEND AND INTEREST PAYMENTS-
Clayhithe 1.5p
Coalite Group 2.75p
Electric & Gen. Inv. Co. 0.8p
Ferranti Intl. Signal 0.78p
Harland Simon Group 1p
Hospital Corp. of America 18cts.
ICI 11¾% Uns. Ln. 91/06 5.8875pc.
Intl. Distillers & Vintners 8⅞% Uns. Ln. 87/92 4.25pc.
Johnson Matthey 2.6p
Jorys Hotel Group 1.5p
Kansallis-Osake-Pankki Fltg. Rate Cap. Nts. 1992 £226.04
Kynoch (G. & G.) 4.5p
Learmonth & Burchett Mngmt. Sys. 0.6p
MS Intl. 0.8p
Moss Tst. 1p
New Zealand Fltg. Rate Nts. 2001 $445.63
Norcros 6p
Owen & Robinson 1p
Read Executive 0.8p
Wellman 50% Intl. Cnv. Prf. 25p
Whitbread & Co. 7¼% Red. Deb. 89/94 3.875pc.

TOMORROW
COMPANY MEETINGS-
Berisford (S. & W.), The Chartered Insurance Institute, 20 Aldermanbury, E.C., 10.30
BOARD MEETINGS-
Finals:
Aeronson Bros.
Backenham
Securicor
Security Services
Titaghur Jute Factory
Interims:
Cray Electronics
Hellon Hldgs.
Unitech
DIVIDEND AND INTEREST PAYMENTS-
British Building & Eng. Appliances 2p
De Beers Cons. Mines 40% Prf. (Reg.) 100cts.
Do. 5% 2nd Prf. 4cts.
Drummond Group 1p
Fairview 1.7p
Griqualand West Diamond Mining Co. 20.5cts.
Israel (Jack L.) Group 0.335p
River & Merc. American Cap. & Inc. Tst. 1.5p
Southern Rhodesia 4½% 87/92 (Unassented) 2.25pc.
Do. 4½% 87/92 (Assented) 2.25pc.
Unisys Corp. 25cts.

WEDNESDAY FEBRUARY 8
COMPANY MEETINGS-
Midsummer Leisure, The Brewers Hall, Aldermanbury Square, E.C., 11.30
Westland Group, The Connaught Rooms, Great Queen Street, 10.00
BOARD MEETINGS-
Finals:
P & P
St. Modwen Props.
Scottish American Inv.
Sutherland
Union Discount Co.
Interims:
Davies (D. Y.)
Hambro Currency Fund
DIVIDEND AND INTEREST PAYMENTS-
Airtours 4.9p
Anchor Intl. Fd. 16.81cts.
Bass 18.1p
Cohen (A.) & Co. 8p
Do. NV 4.8p
Davy Corp. 2.8p
De Beers Cons. Mines 40% Prf. (Br.) 100cts.
Deelkraal Gold Mining 30cts.
Doornfontein Gold Mining Co. 10cts.

Driefontein Cons. 80cts.
Gold Fields Coal 11.88484p
Kloof Gold Mining 45cts.
Libanon Gold Mining 20cts.
Menvier Group 1p
Spectis 1p
Sylvone 4p
Tex Hldgs. 2.5p
Venterspost Gold Mining 25cts.
Westminster & Country Props. 2p

THURSDAY FEBRUARY 9
COMPANY MEETINGS-
Associated Paper Inds., Royal Westminster Thistle Hotel, Buckingham Palace Road, S.W., 12.30
Burns-Anderson Group, The Hilton Intl. Hotel, Bristol, 12.00
Dobson Park Inds., The Crowne Plaza Midland Hotel, Manchester, 12.00
Scottish Hldgs., Netherdale Centre, Dundee, 12.00
Tomkinsons, The Chantry, St. Mary's Church, Kidderminster, Worcestershire, 12.00
Turnbull Scott, The Queens Hotel, Leeds, 12.00
VPI Group, The Savoy, Strand, W.C., 12.00
BOARD MEETINGS-
Finals:
Cons. Goldfields
Griqualand West Diamond Mining
Scandinavian Bank
Throgmorton Trust
Ward Hldgs.
Interims:
Bryant Group
Eidest
Portsmouth & Sunderland News
Ransom (Wm.)
Zurich Group
DIVIDEND AND INTEREST PAYMENTS-
British Land 1.85p
Halifax Bldg. Soc. Fltg. Rate Ln. Nts. 1994 £164.83
Meyer Intl. 4p
Midsummer Leisure 2p
Royal Bank of Scotland Group Fltg. Rate Nts. 2005 £164.83
Schroder Global Tst. 2.4p
Tomkinsons 7.8p
Trafalgar House 8.8p
Westland Group 2.25p

FRIDAY FEBRUARY 10
COMPANY MEETINGS-
Barr (A. G.), Bothwell House Hotel, Ruddling Park, Rothwell, North Yorkshire, 12.00
BOARD MEETINGS-
Finals:
Anglo & O'seas Trust
Inv. Trust of Guernsey
Manchester Ship Canal
Interims:
Second Alliance Trust
DIVIDEND AND INTEREST PAYMENTS-
Anglia Secure Homes 2.25p
Associated Paper Inds. 2.9p
Australia & New Zealand Banking Group 25cts.
Do. New A$1 11cts.
Berkeley Group 1.5p
Bermuda Intl. Bond Fd. 20cts.
Burns-Anderson Group 2.25p
Cigna O'seas Finance NV 13% Uns. Ln. 2008 6.5pc.
Convention 9¾% 2001 4.875pc.
Edbro 3p
Goldsmid Mahon Hldgs. 1.2p
Pell Corp. 13cts.
Salvesen (Christian) 1.7p
Security Archives Hldgs. 2p
Sidlaw Group 2.3p
Tinsleyd Group 2.3p
Turnbull Scott Hldgs. 2.15p
Wiggins Group 3p
Zandpan Gold Mining Co. 3.13016p

SATURDAY FEBRUARY 11
DIVIDEND AND INTEREST PAYMENTS-
Smith New Court 1.5p

SUNDAY FEBRUARY 12
DIVIDEND AND INTEREST PAYMENTS-
Exchequer 11% Ln. 1990 5.5pc.

CONSTRUCTION CONTRACTS

Private housebuilding suffers

By Andrew Taylor, Construction Correspondent

There has been a sharp fall in inquiries for new work for private housebuilders according to the latest workload survey by the Building Employers Confederation, published today.

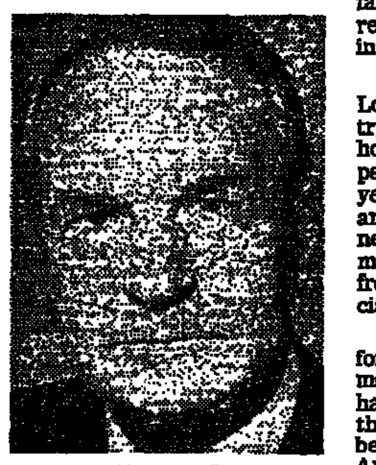
The Halifax Building Society on Friday reported that a fall in house sales meant that the number of mortgages granted by the Society in December and January was about half those in the corresponding months a year earlier.

The Building Employers Confederation said the fall in inquiries for private housebuilding was particualrly pronounced in the southern half of England.

Demand in other construction sectors had remained high. Almost half of the 600 construction companies questioned last month by the Confederation reported that inquiries new work had increased between the third and fourth quarters of last year. Only five per cent reported a decline in work inquiries.

It said prospects for this year, therefore, looked reasonably bright. Total construction output had continued to grow strongly during the final months of last year.

The one sector which had recorded a significant downturn was private housebuilding. Almost 30 per cent of companies had reported a decline in inquiries for private housebuilding work compared with 18 per cent reporting an increase.



Sir Clifford Chetwood, chairman and chief executive of George Wimpey.

Chairmen of two of Britain's biggest construction and building materials companies, Sir Clifford Chetwood of Wimpey and Sir Colin Corness of Redland, last week warned that private housing output could fall by as much as a fifth as a result of higher mortgage interest rates.

Sir Clifford told a House of Lords all-party building industry group that sales of new houses could fall by between 15 per cent and 20 per cent this year. The Confederation said an increase in inquiries for new work in the final three months of last year had come from mainly private commercial and industrial developers.

"One possible explanation for the bouyancy of the commercial sector is that clients have been anxious to maximise the amount of work done before the introduction in April of value added tax on new construction," said the Confederation. It said the proportion of companies reporting serious delays due to manpower shortages had fallen from eight per cent to five per cent.

Building Computer centre

National Westminster Bank has awarded CONDER PROJECTS, the design and build arm of Conder Group, a £25m contract to build a data centre at Stone, Staffordshire. This is part of the bank's recently announced £3bn computer investment programme.

The 10,700 sq metre project started in January and will be completed in June 1990.

The data centre will have highly sophisticated services, including the ability to generate power for the centre in the event of failure in the Electricity Board's supply.

£46m orders awarded to A. McAlpine

ALFRED McALPINE has been awarded 31 contracts whose combined value exceeds £46m. The contracts, which cover a wide range of work across the country in both the public and private sectors, are as follows:

Alfred McAlpine Construction has been awarded the design and build of a £5.4m distribution depot for Hall Engineering Holdings at Daventry; a 3.7km by-pass at Haslington for Cheshire County Council valued at £3.52m; a £3.5m office building for Norwich Union at Redhill; a £3.45m courthouse building in Chester for Cheshire County Council and a £2.7m multi-storey carpark for the BBC at Southampton.

The company has also been awarded a £2.6m contract by Embassy Hotels to extend the Hogs Back Hotel, at Seale, Surrey; a £1.74m office development for Norcros Properties at Newham Quay, Truro; a £1.7m warehouse extension for Kronospan at Chirk, North Wales; a £1.68m road scheme at Penryn for Cornwall County Council; a £1.67m multi-storey car park in Wrexham for sister company Alfred McAlpine Management, who is carrying out work in the town centre; a £1.55m office development for Threadneedle at Douglas on the Isle of Man; a £1.25m office building for Lucas Engineering & Systems at Shirley, West Midlands; a £1.18m effluent treatment plant for Bridgewater Paper at Ellesmere Port and a £1m sub-divisional police headquarters at Wilmslow for Cheshire County Council.

Alfred McAlpine Services & Pipelines has been awarded a £3.6m contract by the Welsh Water Authority to carry out works at Llandudno, North Wales.

Alfred McAlpine Management has been awarded a £2.5m contract by Beazer Property and Sun Life Properties to refurbish Wigan Centre Arcade.

Wharf project

EDMUND NUTTALL has been awarded a forty-eight week £14.8m contract by Highland Participants for the construction of a jetty at the new Isle of Grain container terminal. The jetty will be sited on a section of the old BP Oil refinery on the north bank of the River Medway.

The jetty deck is about 315 metres by 50 metres and is made of reinforced concrete supported on tubular steel piles. The deck is connected to the shore by approach bridges at either end. The bridge decks consist of precast inverted tee beams with in situ concrete concrete infill again supported on tubular steel piles. Floodgates are provided to permit the roadway to pass through the sea wall.

The wharf, which will be operated by Thames Estuary Terminals, will accept ships of up to 75,000 tonnes displacement and the area of the berth is to be dredged to a depth of 13.5 metres. The contract includes deck fittings and the provision of mechanical and electrical services.

Expanding sewage treatment works

The M J GLEESON GROUP has received contracts in England and Scotland together worth £17m.

At Camberley, Surrey, Gleeson is undertaking a £10.6m design-and-construct extension to the sewage treatment works to create sufficient capacity for expected local requirements into the next century and to protect the River Blackwater from possible pollution.

In Scotland, Gleeson's Stirling office is commencing the £2.1m restoration of the Royal Museum of Scotland, Edinburgh, for the Property Services Agency. During the 80-week contract, Gleeson will strip and replace the entire roof fabric of four galleries, reinstate the interiors, and instal electrical and ventilation systems. The East Pavilion will be re-roofed and Gleeson will restore with natural sandstone those areas of the galleries and the Pavilion where the stonework has decayed.

APPOINTMENTS

New president for Leeds Permanent

■ LEEDS PERMANENT BUILDING SOCIETY has appointed Mr J. Malcolm Barr as president and Mr Robert Strachan vice president. Mr Barr is chairman and managing director of Barr & Wallace Arnold Trust and has been a director of the Society since 1973. Mr Strachan is a director of the Ward Group.

■ N.M. ROTHSCHILD & SON has appointed Mr Richard Bailey as head of corporate finance in the north of England. He joined Rothschild at the Manchester office in 1981.

■ Mr Martyn Brunger has joined LAMPWAYS as managing director. He comes from GTE Sylvania where he led the UK sales division. Mr Geoff Eastman, the present managing director, becomes vice chairman. He will now concentrate on key developments and specific projects, including an enhanced computer system scheduled for installation later this year.

■ Mr Paul J. Ryder has joined LUCAS AUTOMOTIVE as managing director-engine management systems in succession to Mr Mike Stacy, who was recently appointed managing director of Lucas Aerospace UK. Mr Ryder, formerly managing director of the automotive group of AB Electronics, will also take a seat on the board of Lucas Automotive.

■ Miss Pat Dean has been appointed director and general manager of silver recovery specialist MCP-METELEC. She joined the group in 1985 in a senior management administration capacity.

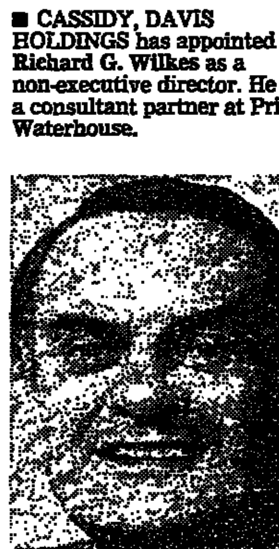
■ Mr Gordon H. Waddell and Mr Michael E. Walton have been appointed directors of LONDON & STRATHCLYDE TRUST. Mr Waddell is a director of Cadbury Schweppes and the Gartmore-managed investment trust, Scottish National Trust. Mr Walton is head of venture capital investment at Gartmore and a director of English and Caledonian Investment, another Gartmore investment trust.

■ At UNION INTERNATIONAL Mr Geoffrey Gillow has been made development director of the retail division, with a seat on the board of J.H. Dewhurst. He was finance director of British Beef Co, another Vestey company.

■ Mr Roger Charlesworth has been appointed a director of SQUARE MILE GATE, the venture capital advisory company.

■ Mr G.B. Sword has been appointed joint managing director of HUNT & MOSCROP, the UK subsidiary of the KLeinewefers Group of West Germany.

■ CASSIDY, DAVIS HOLDINGS has appointed Mr Richard G. Wilkes as a non-executive director. He is a consultant partner at Price Waterhouse.



The CHASE MANHATTAN BANK N.A. has appointed Mr Robert H. Binney (above), senior vice president, as its senior banker with responsibility for European financial institutions. He will be responsible for the marketing of corporate finance products. Mr Binney, who joined the Bank in 1971, returns to London after five years in Japan where he was country manager, and four years in Hong Kong as managing director of Chase Manhattan Asia.

■ SEDGWICK has made the following directors: Mr C.J. Trickett, Sedgwick Associated Risks, Mr J.V. Garwood, Sedgwick Offshore Resources, and Mr C.J. Brown, Mr W.J. Calder, Mr I.M. Denham, Mr J.M. Hutchinson, Mr G.F. Northam and Mr J.M. Russell from Price Forbes.

■ Following the death of Mr H. Peter Whittaker, Mr H.C.S. Hall has been made chairman of M.H. WHITTAKER & SON (HOLDINGS) and M.H. WHITTAKER FINANCE. Mr Hall will continue to manage his own company, Typetronics, as chairman and managing director.

■ At HEPWORTH Mr T.D. Parr has been made a non-executive director. He is chairman and chief executive of William Baird.

■ Sir Jeffery Petersen has joined the board of NORTH SEA ASSETS as non-executive chairman. Sir Jeffery was until recently chairman of Barclays Bank in Spain and is currently chairman of the British Materials Handling Board and GVA International.

Mr Wynne Denman, a former executive director of the British and Commonwealth Shipping Co, and Mr Antony Craven Walker, chief executive of Nimex Resources, have also been appointed non-executive directors.

■ NOMURA has appointed Mr Michael Cox as executive director of the international equity sales department. He joins from Morgan Grenfell Securities.

■ Mr Ken Toole has become director of marketing and corporate development at LIQUID POLYMERS, Accrington.

■ NATIONAL MUTUAL LIFE has appointed Mr Norman Worley as assistant general manager-sales and marketing.

■ Mr Geoff Lawrence, sales director of GOODYEAR GREAT BRITAIN, will retire on April 28. He will be succeeded by Mr Gordon Bain, managing director of Tyreservices Great Britain.

■ Mr Robert Anderson has been appointed finance director of the WEIR GROUP's latest acquisition, Liquid Gas Equipment. He remains finance director of Weir Westgarth.

■ Mr Tony Holden has been made general manager of RANK XEROX SYSTEMS SALES, the new organisation set up to market the company's range of document systems and related office and publishing products in Europe. He joined Rank Xerox in August as director, office systems and customer support services. Mr John Moran has been appointed marketing director of Rank Xerox Systems Sales.

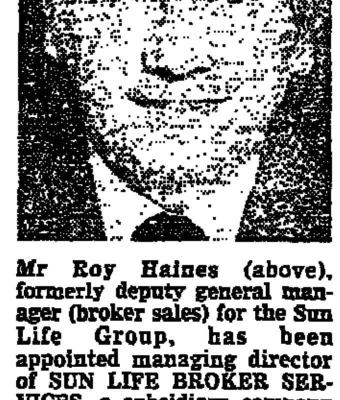
■ JOHN FOSTER & SON has appointed Mr Ray Philips, commmercial director, as manufacturing director. He succeeds Mr Harold Harvey who has been promoted to managing director. Mr Bill Brownlee has been made European sales director. He was sales director with Crowther's cloth division.

■ BRITISH LINEN BANK has made the following appointments: Mr John S. Hunter, a director within the corporate finance area, will become head of corporate finance in succession to Mr Eric Sanderson. Mr Hunter has been a director of the bank for four years.

Mr Alan Murray, who was appointed to the board in November 1987 with responsibility for banking in Scotland, has been appointed head of banking.

■ LOWNDES QUEENSWAY, the furniture and carpet retailer, has appointed Mr Ray Nethercott as managing director of its carpet division. He joins from Storehouse where he was chief executive of Habitat Heals from September 1987.

■ Mr Keith Frogley has joined the board of IDV (UK) as operations director, responsible for the company's production and distribution functions. He joins from Mobil Oil Corporation, where his most recent appointment was that of international marketing operations adviser, based in New York.



Mr Roy Haines (above), formerly deputy general manager (broker sales) for the Sun Life Group, has been appointed managing director of SUN LIFE BROKER SERVICES, a subsidiary company which has been formed to provide the services previously undertaken by Sun Life's broker services division. Mr Brim Avery, formerly broker marketing manager, has been appointed deputy managing director of the new company.

FT UNIT TRUST INFORMATION SERVICE

● For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
High Income						
American Income	6	45.89	46.29	49.24	5.36	40000
Gilts & Fixed Int.	6	114.7	114.7xd	121.8	8.21	40001
High Inc Equity	6	127.1	129.5xd	138.4	5.30	40002
Worldwide Bond	6	186.0	186.0	197.2	4.92	40003
Capital Growth						
American Growth	6	157.5	159.4xd	169.5	1.29	40004
Asian Pacific	6	77.47	79.21xd	84.71	1.27	42005
Assets & Earnings	6	150.2	154.1	163.9	2.42	40006
Capital Reserve Acc	0	82.81	82.81	82.98	4.82	40007
Comdty & Energy	6	96.57	99.46	105.8	0.30	40008
1992 Enterprise	5	52.00	53.12	56.50	3.19	46597
European Capital	6	75.98	76.56	81.44	.92	40009
General	6	167.2	170.1	180.9	2.39	40010
Japan	6	103.8	105.5	112.2	0.00	40011
Mastertrust	6	78.17	78.17	83.61	1.77	40012
UK Growth Acc	6	189.5	197.8	210.4	1.62	40013
UK Growth Dist	6	126.9	132.4	140.8	2.42	40014
US Emerging Cos	6	47.94	49.45	52.60	0.00	40015
Income & Growth	6	281.9	288.2	306.5	3.10	40016
Ethical	6	46.19	47.32	50.34	2.45	40017

Abtrust Management Ltd (1000)H
10 Queens Terrace Aberdeen AB9 1QJ 0224 633070

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American	5¼	43.53	43.53xd	46.31	1.83	40022
Australian	5¼	23.82	23.82	25.34	1.20	40024
European	5¼	50.93	50.93	54.18	0.00	40025
Extra Income	5	41.83	41.83	44.40	4.99	40027
Fund Inv Tst	5	117.6	117.6	125.0	2.40	40100
Do Accum	5	179.3	179.3	190.5	2.41	40101
Gilt & Fixed Int	5¼	21.68	21.68	23.28	10.14	40026
Global Income	5¼	38.05	38.05	40.47	4.66	40027

Provident Mutual Unit Tst Mgrs Ltd (0905)H
25-31 Moorgate, London, EC2R 6BA. 01-588 3963

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
PM Equity Gth	5	116.7	118.9	126.4	2.83	41169
PM Income & Gth	5	105.3	106.8	113.6	4.19	41170
PM Nth Amer Gth	5	47.81	47.81	50.86	1.48	41171
PM European Gth	5	45.80	45.94	48.87	0.91	41172
PM Japan Gth	5	79.66	79.80	84.89	1.29	41173
PM Overseas Gth	5	49.91	49.91	53.09	0.89	41174

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ♥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ♠ - 1401 to 1700 hours; ♣ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.
Other explanatory notes contained in last column of the FT Unit Trust information pages.

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FT UNIT TRUST INFORMATION SERVICE

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Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Windsor Trust Mngrs Ltd (1000)F						
83 Kingsway, London, WC2B 6SD						01-405 8331
Combin & Equity ♦	5	62.37	64.64	68.76	5.48	41599
European ♦	5	56.51	56.10xd	59.68	0.48	40303
Far Eastern ♦	5	54.93	54.95	58.21	1.23	40304
Growth ♦	5	88.20	92.24	98.13	1.70	41600
Income ♦	5	82.16	83.97xd	89.33	3.79	41601
Property Share ♦	5	52.82	53.82	57.26	1.35	41602
Smaller Co's ♦	5	58.35	61.43	65.35	1.68	41603
Formerly RBC Trust Managers Ltd						
RBC Select Gwth Ac ♦	5	60.37	60.37	64.56	1.97	41206
RBC Select Income ♦	5	66.86	66.86	71.53	3.49	41207
RBC Select Inc Acc ♦	5	71.75	71.75	76.74	3.49	41208
RBC Select N Amer ♦	5	50.85	50.85	54.21	1.38	41209
RBC Select Intl ♦	5	41.05	41.05	43.90	1.49	41210
Wright Seligman Fund Mngrs Ltd (1000)H						
11 Blomfield St, London EC2M 7AY						01-588 0592
Growth	5	94.26	94.26	98.26	5.64	41604
Weekly dealing day Tuesday						
The Yorkshire Unit Tst Mngrs Ltd (1100)F						
Woodsome Pk, Fenay Bdge, Huddersfield						0484 602250
Yorkshire General	5¼	59.71	62.16	66.13	3.17	41605
YUTM UK Equity Tst	5¼	59.10	61.96	64.87	4.59	41606
YUTM Intl Gwth Tst	5¼	46.23	46.23	49.28	0.12	41765

OTHER UK UNIT TRUSTS

Unit Name	Init Chrge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Baillie Gifford & Co Ltd						
Int'l Expt Feb 1			1429.0	446.11	–	40105
Cent. Bd. of Fin. of Church of England‡‡						
2 Fore Street, London EC2Y 5AQ						01-588 1815
Inv Fund Jan 31			492.95		4.71	40251
Fxd Int Sec Jan 31			143.75		9.95	40252
Deposit, Jan 31			100.00		12.45	40253

INSURANCES

	Bid Price	Offer Price	Yield Gross	City-line
Allied Dunbar Assurance Plc				
Allied Dunbar Ctr, Swindon SN1 1EL				0793 514514
Fixed Int. Dep. Acc	254.2	267.6	–	41723
Equity Acc	800.2	842.4	–	41724
Property Acc	478.8	504.1	–	41725
Far East Acc	192.5	202.7	–	41726
European Acc	19.9	21.0	–	41727
Managed Acc	634.4	667.8	–	41728
Managed Cap	361.8	380.9	–	41729
O'seas Earnings Acc	343.8	361.9	–	41730
Gilt Edged Acc	314.4	331.0	–	41731
American Equity Acc	395.9	416.8	–	41732
American Man. Acc	184.9	194.7	–	41733
American Prop Acc	134.9	142.0	–	41734
Pen Fxd Dep Cap	279.3	294.1	–	41735
Pen F'd Dep Acc	472.8	497.7	–	41736
Pen. Prop. Cap	361.2	380.0	–	41737
Pen. Prop. Acc	1048.3	1103.5	–	41738
Pen. Man. Cap	787.4	828.9	–	41739
Pen. Man. Acc	1470.3	1547.7	–	41740
Pen Gilt Edg Cap	313.6	330.2	–	41741
Pen. Gilt Edg Acc	478.7	503.9	–	41742
Pen. Eq. Cap	1289.5	1357.4	–	41743
Pen. Eq. Acc	1825.3	1921.3	–	41744
Pen. Am. Eq Cap	126.9	133.6	–	41745
Pen. Am. Eq Acc	151.4	159.4	–	41746
Pen Far East Cap	232.9	245.7	–	41747
Pen. Far East Acc	276.1	290.7	–	41748
Pen. Euro Cap	22.5	23.7	–	41749
Pen. Euro. Acc	24.2	25.5	–	41750
Pen. B.S. Acc	504.4	540.2	–	41751
Pen. B.S. Cap	312.5	328.2	–	41752
Pen. D.A.F. Acc	361.3	361.3	–	41753
Pen. D.A.F. Cap	246.4	246.4	–	41754
Pen. Mortgage Cap	139.6	146.9	–	41755
Pen. Mortgage Acc	166.4	175.2	–	41756
Pen Equ Cap	27.0	28.5	–	46176
Pen Equ Acc	27.8	29.3	–	46177
Pen Am Eq Cap	28.1	29.6	–	46178
Pen Am Eq Acc	28.8	30.4	–	46179

Continued on next page

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Pioneer Mutual Insurance Co Ltd

16 Crosby Rd, N Waterloo Liverpool 051-928 6655

	Bid Price	Offer Price	Yield Gross	Cityline
Managed Fund	281.1	295.9	–	43272
Man Pens Inc & Cap Fds.	364.4	383.6	–	43273
Money Fund	116.8	123.0	–	43274
Pens Mngd Fd (Init)	99.4	104.7	–	43275
Pens Mngd Fd (Acc)	117.9	124.2	–	43276
Pens FT30 Fd (Init)	141.2	148.7	–	43277
Pens FT30 Fd (Acc)	167.5	176.4	–	43278
Pens O'seas MgFd(Init)	69.9	73.6	–	43279
Pens O'seas MgFd(Acc)	82.9	87.3	–	43280
Pens Fxd Int Fd (Init)	105.5	111.1	–	43281
Pens Fxd Int Fd (Acc)	125.2	131.8	–	43282
Pens Deposit Fd (Init)	103.0	108.5	–	43283
Pens Deposit Fd (Acc)	122.3	128.8	–	43284

Premium Life Assurance Co Ltd

37-39, Perrymount Road Haywards Heath 0444 458721

	Bid Price	Offer Price	Yield Gross	Cityline
American	113.0	119.0	–	43285
Building Soc. Fd.	167.0	176.0	–	43286
Balanced	263.0	277.0	–	43287
Deposit	166.0	175.0	–	43288
European	148.0	156.0	–	43289
GT Managed	170.0	179.0	–	43290
Gartmore Mngd	110.0	116.0	–	43291
German	103.0	109.0	–	43292
Gilt	172.0	182.0	–	43293
Global	48.0	51.0	–	–
High Inc.	109.0	115.0	–	43294
International Equity	173.0	183.0	–	43295
Japan	232.0	245.0	–	43296
Managed	60.0	64.0	–	43297
Property	272.0	287.0	–	43298
R W Imperial Gold	125.0	132.0	–	43299
UK Equity	348.0	367.0	–	43300
Pension Funds				
American	131.0	138.0	–	43301
Building Soc. Fd.	164.0	173.0	–	43302
Balanced	204.0	215.0	–	43303
Deposit	159.0	168.0	–	43304
European	148.0	156.0	–	43305
German	94.0	99.0	–	43308

Prudential Holborn Pensions Ltd

30 Old Burlington St, London W1X 1LB 01-439 3134

Prudential Pensions Limited

Holborn Bars, London EC1N 2NH

Regency Life Assurance Co Ltd

Reliance Mutual

Royal Heritage Life Assurance Ltd

Royal Life Insurance Ltd

Royal Liver Assurance

Save & Prosper Group (c)

Prolific Life & Pensions Ltd

Property Equity & Life Ass. Co

Property Growth Assur Co Ltd

Providence Capital Life Assc. Co Ltd

Provident Life Assoc Ltd

Provident Mutual Life Assc. Assn.

Prudential Assurance Co

Prudential Holborn Life Ltd

Scottish Amicable

Scottish Equitable Life Assce. Soc.

Scottish Life Investments

Scottish Mutual Assurance Society

Scottish Mutual Investments

Scottish Provident Institution

Scottish Widows' Group

Shield Assurance Ltd

Skandia Life Assurance Co Ltd (c)

Skandia Life Assurance Co Ltd – Contd.

Standard Life Assurance Company

Sun Alliance Insurance Group

Sun Life of Canada (UK) Ltd

Sun Life Unit Assurance Ltd

Swiss Life Pensions Ltd

TSB Life Ltd

Target Life Assurance Co Ltd

Teachers' Assurance Company Ltd

Tunbridge Wells Equitable

UK Life Assurance Co Ltd

Westgate & General Assurance Soc

Windsor Life Assur Co Ltd

Zurich Life Assurance Co Ltd

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

GUERNSEY AUTHORISED

JERSEY AUTHORISED

IoM AUTHORISED

LUXEMBOURG AUTH'D

BERMUDA AUTHORISED

OFFSHORE INSURANCES

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	"Shorts" (Lives up to Five Years)					
885	Treas 9½pc Cnv 1989	99¾	12.17	12.9	18 Oct 18 Apr	1348
500	Treas 3pc 1989	98¾	9.67	10.10	15Mar 15May	1527
1,400	Treas 10½pc 1989	99¾	12.30	7.11	14Dec 14Jun	1287
2,400	Exch 10pc 1989	99	12.31	28.12	1Feb 1Aug	1250
2,000	Exch 11pc 1989	99¾	12.18	23.8	29 Mar 29 Sep	1256
601	Treas 5pc 1986-89	96¾	10.18	8.9	15 Apr 15 Oct	1329
535	Exch 10¼pcCv '89	99½	11.06	10.10	15 May 15 Nov	1255
1,000	Treas 13pc 1990‡‡	101¾	11.30	9.12	15 Jul 15 Jan	1300
1,400	Exch 11pc 1990‡‡	99¾xd	11.24	6.1	12 Aug 12 Feb	1257
1,250	Exch. 12½pc 1990	101¾	11.36	16.8	22Sep 22 Mar	1262
550	Treas. 3pc 1990	92½	9.53	3.10	8 Nov 8 May	1325
600	Treas 8¼pc 1987-90‡‡	96¾	10.98	8.11	15 Dec 15 Jun	1340
955	Treas. 8pc Cv 1990 ‡‡	98¾	9.58	12.12	16Jul 16Jan	4680
1,887	Treas. 10pcCv 1990	98¾	11.04	19.9	25 Apr 25 Oct	1285
500	Exch 2½pc 1990	89¾	9.08	17.10	22 May 22 Nov	2270
2,200	Treas 11¾pc 1991	101¾	10.90	5.12	10 Jul 10 Jan	1292
400	Funding 5¾pc '87-91‡‡	91¾	10.22	1.9	5Oct 5Apr	1275
400	Treas. 3pc 1991	88¾	9.02	7.10	13 Nov 13 May	1326
646	Treas 10pc Cv '91 ‡‡	99¾	10.19	6.12	12Jan 12Jul	1286
1,550	Exch. 11pc 1991	100¾	10.63	19.9	25Apr 25Oct	1258
1,350	Treas. 8pc 1991	94	10.50	3.11	10Jun 10Dec	1335
900	Treas 12¾pc 1992‡‡	106¼	10.31	16.12	22Jul 22Jan	1297
1,600	Treas 10pc 1992	99¾xd	10.34	16.1	21Aug 21Feb	1283
1,400	Treas. 8pc 1992 ‡‡	93¾	10.29	6.9	13Oct 13Apr	1337
1,288	Treas 10½pc Cv 1992‡‡	100¾	10.34	3.10	7 Nov 7 May	1289
500	Treas. 3pc 1992	84¾	8.46	4.11	11Dec 11Jun	1328
1,350	Exch. 12¼pc '92	105¾xd	10.39	19.1	25 Feb 25 Aug	1265
1,757	Exch 13½pc 1992	109½	10.35	16.8	22Mar 22Sep	1266
950	Treas 8¼pc 1993	94¾xd	10.16	17.1	18Aug 18Feb	–
1,850	Treas 10pc 1993‡‡	100	10.05	8.9	15Oct 15Apr	1279
1,100	Treas 12½pc 1993‡‡	108¾	10.15	8.12	14Jan 14Jul	1296
600	Funding 6pc 1993‡‡	87¾	9.54	9.8	15Mar 15Sep	1276
1,250	Treas 13¾pc 1993‡‡	113¾	10.18	17.10	23May 23Nov	1304
1,050	Treas. 8½pc 1994	94¾	10.08	28.12	3Aug 3Feb	–
	Five to Fifteen Years					
600	Treas 14½pc 1994‡‡	117¾xd	10.08	23.1	1 Sep 1 Mar	1307
1,100	Exch 13½pc 1994	113¾	10.20	20.9	27Oct 27Apr	1267
1,400	Treas. 10pc Ln. 1994‡‡	100¾	9.97	2.11	9Dec 9Jun	1284
1,550	Exch. 12¼pc 1994	109¾xd	10.13	16.1	22Feb 22Aug	1263
1,600	Treas 9pc 1994‡‡	96¼	9.86	11.10	17May 17Nov	1345
2,350	Treas 12pc 1995	108¾	10.10	19.12	25Jul 25Jan	1294
229	Exch 3pc Gas 90-95	78	7.53	26.9	1Nov 1May	1271
2,100	Exch. 10¼pc 1995	101¼	9.98	15.12	21Jan 21Jul	1254
1,000	Treas 12¾pc 1995‡‡	113¾	9.98	10.10	15May 15Nov	1298
900	Treas. 14pc '96	119¾	10.11	16.12	22Jul 22Jan	1305
750	Treas. 9pc 1992-96‡‡	97¼	9.58	9.8	15Sep 15Mar	1344
1,350	Treas 15¼pc 1996‡‡	126¾	10.00	27.9	3Nov 3May	1309
800	Exch 13¼pc 1996‡‡	116¾	9.94	10.10	15Nov 15May	1268
1,109	Conversion 10pc 1996	101	9.81	10.10	15May 15Nov	1240
1,500	Treas 13¼pc 1997‡‡	117¾	9.97	16.12	22Jul 22Jan	1302
3,100	Exch 10½pc 1997	103¾	9.86	16.1	21Aug 21Feb	1253
3,750	Treas 8¾pc 1997‡‡	95xd	9.67	23.1	1Mar 1Sep	1341
1,000	Exch 15pc 1997	128¼	10.10	20.9	27Apr 27Oct	1269
2,850	Exch. 9¾pc 1998	100¾	9.77	13.12	19 Jul 19 Jan	1273
1,000	Treas 6¾pc 1995-98‡‡	84¾	9.35	26.9	1Nov 1May	1331
1,100	Treas. 15½pc '98‡‡	133¾	10.00	24.8	30Mar 30Sep	1308
2,500	Exch. 12pc 1998	113½	9.86	14.10	20May 20Nov	1259
1,250	Treas 9½pc 1999‡‡	100¼	9.50	9.12	15Jul 15Jan	1347
2,900	Exch. 12¼pc 1999	115¾	9.86	22.8	26Sep 26Mar	1264
1,252	Treas. 10½pc 1999	105¼	9.74	13.10	19Nov 19May	1288
1,548	Conversion 10¼pc 1999	103¾	9.74	17.10	22May 22Nov	1242
1,200	Treas. 8½pc Ln 2000‡‡	93¾	9.41	22.12	28Jan 28Jul	1338
1,554	Conversion 9pc 2000‡‡	97¾xd	9.51	25.1	3Sep 3Mar	1244
1,817	Treas. 13pc 2000	121¼	9.86	8.12	14Jan 14Jul	1299
1,050	Treas 10pc 2001	103¾xd	9.59	20.1	26 Aug 26 Feb	1280
1,250	Treas. 14pc '98-01	124	10.00	17.10	22Nov 22May	1306
802	Conversion 9¾pc 2001	101¾xd	9.56	4.1	10Feb 10Aug	1248
1,600	Exch. 12pc '99-02	113¾	9.91	16.12	22Jul 22Jan	1261
716	Conversion 10pc 2002	104¾	9.51	5.9	11 Oct 11 Apr	1241
1,450	Treas 9¾pc 2002	102¾xd	9.49	23.1	27 Feb 27 Aug	1349
1,300	Exch. 9pc 2002	97¾	9.35	13.10	19May 19Nov	1272
1,800	Treas. 13¾pc 2000-03	126¾	9.84	19.12	25Jan 25Jul	1303
1,000	Treas 10pc 2003	105¼xd	9.33	30.1	8 Mar 8 Sep	1281
	Over Fifteen Years					
1,900	Treas. 11½pc 2001-04	113	9.65	15.8	19Sep 19Mar	1290
900	Treas. 10pc 2004	106¼	9.25	12.10	18 Nov 18 May	1282
443	Funding 3½pc '99-04	59¾	8.18	8.12	14Jan 14Jul	1274
1,362	Conversion 9½pc 2004	102¼	9.21	19.9	25 Apr 25 Oct	1246
1,881	Conversion 9½pc 2005	102¾	9.18	12.9	18 Oct 18 Apr	1247
1,050	Exch.10½pc 2005	111¾	9.18	15.8	20 Mar 20 Sep	1251
2,200	Treas. 12½pc 2003-05	124¾	9.38	17.10	21May 21Nov	1295
1,800	Treas. 8pc 2002-06‡‡	90¾	9.10	1.9	5Apr 5Oct	1334
369	Conversion 9¾pc 2006	105¾	9.13	10.10	15May 15Nov	1249
3,150	Treas. 11¾pc 2003-07	118¾	9.38	16.12	22Jan 22Jan	1293
1,446	Treas 8½pc 2007 ‡‡	95¾	8.99	12.12	16Jan 16Jul	1339
1,250	Treas. 13½pc '04-08	134	9.27	22.8	26Sep 26Mar	1301
1,800	Treas. 9pc 2008 ‡‡	100¾	8.95	6.9	13Apr 13Oct	1343
1,000	Treas 8pc 2009	91¾	8.89	19.8	25Mar 25Sep	1336
369	Conv 9pc Ln 2011 ‡‡	101¾	8.85	6.12	12Jan 12Jul	1245
1,000	Treas. 5½pc 2008-12‡‡	68¾xd	8.65	1.2	10Mar 10Sep	1330
700	Treas. 7¾pc 2012-15‡‡	88¾	8.80	20.12	26Jul 26Jan	1332
1,000	Exch. 12pc '13-'17	131	8.87	7.11	12Jun 12Dec	1260

BRITISH FUNDS—Contd

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	Undated					
359	Consols 4pc	44¾	–	28.12	1Feb 1Aug	1239
1,909	War Loan 3½pc‡‡	40¼	–	22.11	1Jun 1Dec	1352
140	Conv. 3½pc '61 Aft	65	–	25.8	1Apr 1Oct	1243
56	Treas. 3pc '66 Aft	33¾	–	1.9	5Apr 5Oct	1324
276	Consols 2½pc	28¼	–	1.12	5Ja Ap Jul Oc	1238
475	Treas. 2½pc	28¾	–	25.8	1Apr 1Oct	1315
	Index-Linked	(b)	**			
500	Treas 2pc IL '90(84.6)	125¾	3.09	19.12	25 Jul 25 Jan	1311
650	Do. 2pc '92‡‡(97.8)	105¾	3.48	17.8	23Mar 23Sep	1312
400	Do. 2 '94 (102.9)	96¾	3.54	10.10	16Nov 16May	–
1,000	Do. 2pc '96(67.9)	141¾	3.60	10.8	16Mar 16Sep	1313
900	Do 2½pc '01(78.3)	121¾	3.60	18.8	24Mar 24Sep	1316
800	Do. 2½pc '03(78.8)	119½	3.61	14.10	20Nov 20May	1317
1,200	Do. 2pc '06(69.5)	122	3.64	13.12	19Jan 19Jul	1314
950	Do. 2½pc '09(78.8)	114¾	3.62	14.10	20Nov 20May	1318
1,350	Do. 2½pc '11(74.6)	119½xd	3.60	17.1	23Feb 23Aug	1319
1,100	Do. 2½pc '13(89.2)	99¾xd	3.57	10.1	16Feb 16Aug	1320
1,700	Do. 2½pc '16(81.6)	107¾	3.54	20.12	26Jan 26Jul	1321
1,400	Do. 2½pc '20(83.0)	105¼	3.49	9.9	16Oct 16Apr	1322
900	Do. 2½pc '24‡‡(97.7)	88¾	3.44	12.12	17Jan 17Jul	1323

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for May 1988:106.2 and for December 1988:110.3

INT. BANK AND O'SEAS GOVT STERLING ISSUES

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
50	African Dv Bk 11¼Ln 2010	108¾	10.17	1.12	4 Jan 4 Jun	–
100	Asian Dev Bk 10¼pcLn2009	104	9.79	26.9	24Mar 24Sep	–
100	Australia 13½pc 2010	129xd	10.08	23.12	28Jan 28Jul	–
100	Do. 11¾pcLn2015	112¾	9.99	22.9	26Apr 26Oct	–
75	Euro Inv Bk 11pc Ln 2002	107¾	9.95	23.8	23Mar 23Sep	–
100	Do. 10¾pc2004	103¾	9.88	24.10	22Mar 22Nov	–
75	Int-Am Dev Bk 12½pc 2003	117¾	10.08	7.12	8Jan 8Jul	–
175	Do. 9¾pcLn 2015	99¾	9.84	13.10	15 Mar 15 Nov	–
75	Mlysia 10¾pcLn 2009	96xd	11.25	23.12	31 Jan 31 Jul	–
50	Utd. Mexican States 16½pc 2008	118	13.80	27.7	1Mar 1Sep	–

CORPORATION LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
32	Birmingham 13½pc 1989	100½	11.20	26.10	20 May 20 Nov	1838
45	Do. 11½pc 2012	110½	10.38	14.10	15May 15Nov	1837
40	GLC 6¾pc 1990-92	88½xd	11.20	16.1	15Feb 15Aug	2647
40	Leeds 13½pc 2006	117½	11.16	9.9	1Apr 1Oct	3146
5	Liverpool 3½pc Irred	33	–	1.12	1Ja Apr Jn Oc	3169
25	LCC 6¾pc '88-90	93½xd	11.10	12.12	10Jan 10Jul	3198
26	Do. 3pc '20 Aft	30xd	–	1.2	1Mar Jn S D	3197
7	Manchester 11½pc 2007	106½	10.90	23.9	25Apr 25Oct	3275

COMMONWEALTH & AFRICAN LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
14	NZ 7¼pc 1988-92	89¼	10.90	1.12	1Jan 1Jul	–
–	S Rhod 2½pc Non-Asstd.	206	–	–	1Apr 1Oct	–
4	Do. 4½pc 87-92 Asstd.	84½xd	9.33	9.1	7Feb 7Aug	–

LOANS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	Building Societies					
20	N'wide Anglia 9¾pc 20.2.89	99¾	13.03	15.7	20Feb 15Aug	–
20	Do. 9½pc 13.3.89	99¾	13.01	8.8	13Mar 7Sep	–
20	Do. 9¾pc 17.4.89	99¾	13.25	12.9	17Apr 11Oct	–
20	Do. 9½pc 8.5.89	99	13.27	4.10	8May 3Nov	–
20	Do. 8¾pc 30.5.89	98¾	13.26	24.10	30May 23Nov	–
20	Do. 9¾pc 26.6.89	98¾	13.01	21.11	26June 20Dec	–
20	Do. 10¾pc 17.7.89	99¾xd	12.96	12.12	–	–
20	Do. 11¾pc 7.8.89	99¾xd	12.97	3.1	–	–
20	Do. 11¾pc 29.8.89	99¾	12.90	–	–	–
20	Do. 12¾pc 18.9.89	99¾	12.80	–	–	–
20	Do. 12¾pc 2.10.89	99¾	12.79	–	–	–
20	Do. 11¾pc 6.11.89	99¼	12.73	–	–	–
20	Do. 12¾pc 4.12.89	99¾	12.69	–	–	–
–	Do. 12¾pc 2.6.90	100¾	12.69	–	–	–
60	Do. 3¾pcIL Ln 2021	101¾xd	4.37	23.1	30Jan 31Jul	3465
	Public Board and Ind.					
3	Agric. Mt. 5pc '59-89	97	3.26	1.12	1Jan 1July	1532
25	Met. Wtr. 3pc 'B'	45xd	10.45	1.2	1Mar 1Sep	3361
	Financial					
3	3i 11¾pc Un Ln '90	100xd	12.04	13.1	11Jan 11Jul	–
15	Do 7¼pcADb89-92	88¾	10.87	28.11	30Sep 31Dec	–
15	Do. 12½pc Un. Ln. 1992	103¾	11.08	15.8	14Mar 14Sep	–
10	Do. 7¼pc A 1991-94	86¼	10.52	5.9	31Mar 30Sep	–
10	Do. 9pc A 1991-94	97¼	9.67	5.9	31 Mar 30 Sep	–
9	Do. 8¾pc Ln 1992-97	91½xd	10.46	30.1	31Aug 28Feb	–

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

	Gross	Net	Equiv CAR	City-line
Charities Aid Fndtn Money Mngmt Co Ltd				
Staple Hall, Stone Ct, Houndsditch, EC3				01-283 6401
CAFCASH Call Fund	12.33	9.46	13.07	–
CAFCASH 7-day Fund	12.50	9.59	13.26	–
The Charities Deposit Fund				
2 Fore Street, London EC2Y 5AQ				01-588 1815
Deposit	12.55	–	13.15	–
Gartmore Money Management Ltd				
2-3 White Hart Yard London SE1R 1NX				01-236 1425
Call Fnd.	12.46	9.56	13.05	–
7-day Fund	12.75	9.78	13.36	–
Dollar	7.75	5.95	8.11	–

Money Market Bank Accounts

	Gross	Net	Equiv CAR	City-line
AAB—Allied Arab Bank Ltd				

UNIT TRUST NOTES

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AMERICANS—Contd

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Contd

CHEMICALS, PLASTICS

DRAPERY AND STORES

ELECTRICALS

ENGINEERING

ENGINEERING—Contd

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS (Miscel.)—Contd

INDUSTRIALS (Miscel.)—Contd.

INSURANCES

LEISURE

LONDON SHARE SERVICE

● For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

LEISURE—Contd

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY—Contd

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Contd

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Contd

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

Market Cap. £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City-line
6.00	Propeller 1p	48	–	–	–	–	3729
2.64	Rentaminster 5p	65	u1.0	2.1	30.1	–	5228
8.41	Royal Sovereign 10p	198	14.6	3.2	3.10	May Nov	1505
1.47	Scott Pickford 10p	21	3.1	19.7	–	–	5062
7.01	Seacon Hldgs	101	Z1.0	1.3	19.9	October	3968
1.06	Sonic Tape 2½p	8½	–	–	–	–	5152
4.42	Stairs Hldgs. 5p	16	–	–	–	–	4625
2.85	Swanyard Studios 1p	2	–	–	–	–	4666
29.7	Takare	340	b1.0	0.4	–	–	4647
3.14	Tomorrows Leisure 20p	28	–	–	–	–	4348
11.1	Tullow Oil 10p	17	–	–	–	–	4886
4.03	UPL Group 10p	100	L2.41	3.2	28.11	June	4362
7.49	Unit Group	145	F7.5	6.9	28.11	Jan July	4357
11.0	Whitegate Leisure 20p	15½	–	–	–	–	1105
0.77	Do Wrrnts	11½	–	–	–	–	1116
16.9	Wilton Group 1p	5	–	–	–	–	3628

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.
Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ✲ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ◊ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♠ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.
Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p γ	75	+2
Craig & Rose £1 γ	710	.....
Finlay Pkg 5p γ	89	.....
Holt (Jos) 25p γ	1235	.....
Arnotts	415	+10
Carrol (P.J.) γ	153	–1
Hall (R. & H.)	165	–5
Helton Hldgs. γ	67	.....
Irish Ropes	165	.....

IRISH

Cap. 8½% Ln. 1991	£99½	.....
9pc Cap Ln 1996	£100	–½
[illegible]	[illegible]	

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	40
Amstrad	18
BAT	40
BOC Grp	36
BSR	7½
BTR	26
Barclays	34
Beecham	40
Blue Circle	39
Boots	20
Bowaters	38
Brit Aerospace	42
Brit Telecom	21
Burton Ord	18
Cadburys	31
Charter Cons	45
Comm Union	28
Courtaulds	26
FKI Babcock	13
FNFC	21
Gen Accident	71
GEC	15
Glaxo	90
Grand Met	38
GUS 'A'	90
Guardian	16
GKN	28
Hanson	12
Hawker Sidd	48
ICI	85
Jaguar	22
Ladbroke	38
Legal & Gen	26
Lex Service	34
Lloyds Bank	29
Lucas Inds	48
Marks & Spencer	15
Midland Bk	35
Morgan Grenfell	28
NEI	12
Nat West Bk	45
P & O Dfd	48
Plessey	15
Polly Peck	28
Racal Elect	25
RHM	32
Rank Org Ord	63
Reed Intnl	38
STC	24
Sears	13
TI	32
TSB	9
Tesco	12
Thorn EMI	55
Trust Houses	24
T&N	16
Unilever	42
Vickers	15
Wellcome	42

Property

Brit Land	30
Land Securities	52
MEPC	50
Peachey	54

Oils

Brit Petroleum	21
Do (P Paid)	12
Burmah Oil	43
Calor	35
Charterhall	2½
Premier	9
Shell	85
Ultramar	21

Mines

Cons Gold	100
Lonrho	38
RTZ	40

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

CURRENCIES AND MONEY REVIEW

Optimism rises as M0 looks set to fall

The weekly return from the Bank of England recording the number of notes in circulation has assumed a new importance, as financial markets in London look for early signs about the direction of interest rates. Last Thursday's publication of the Bank of England return was the first for the banking month of February. It was eagerly grasped by analysts to help them see into the crystal ball and foretell the rate of monetary growth.

The note circulation for the week ending Wednesday, February 1 showed a year-on-year rise of 6.8 per cent. A figure that did not come as a complete surprise, but was very well received in the City. It suggests that the seasonally adjusted annual growth rate in M0 is on a downward course. Data on January M0 will be announced on February 20. Growth is likely to show the first slow down since October. After peaking at 8.5 per cent in September M0 growth has been stuck at 7.7 per cent since October. CL-Alexanders Laing & Cruickshank expects January's figure to have fallen to 7.2 per cent, while NatWest Capital Markets and Greenwell Montagu forecast 7.3 per cent.

Within a minute or so of the bank return being published, at 3 pm on Thursday, dealers at Greenwell Montagu had a note on their desks saying "Note circulation down sharply. If maintained suggests M0 growth rate for the month (February) around 6.25 per cent, although only first week out of four so (it is) highly uncertain."

Apart from the predictable rise in the note circulation just before Christmas the trend seems to be falling at about the same rate that optimism in the City is increasing. On Friday three-month sterling interbank traded steadily at a level below 13 per cent bank base rates. The next question the market will be asking is how soon this optimism will be reflected in lower base rates? Not until after the Budget on March 14 is the obvious answer, but how near any cut in rates will be to Budget day continues to be a major subject of conjecture.

The market will look to the Bank of England for any hints, but and the authorities will be careful not to send a premature signal.

Discount house Gerrard & National points out that three-month bills are trading in the market below the Bank of England's intervention rate of 12⅝ (12.625) per cent for band 4 paper. At Friday's Treasury bill tender the average rate of discount was 12.3133 per cent.

As pressure increases for a cut in rates Gerrard & National suggests the authorities may refuse to offer repurchase facilities to the market. Any offering of repurchase agreements on bills is likely to be taken as an indication that a cut in bank base rates is about to be endorsed.

If the Bank of England does decide against offering such facilities it could result in a severe squeeze on day-to-day liquidity and a rise in rates at the very short end of the money market. Any short term rise in rates will be only temporary, but could provide a guide to the undercurrents between the authorities and the market. It may indicate a refusal by the authorities to buy bills on a repurchase basis, and the refusal of the discount houses to sell the bills outright.

Discount houses try to avoid selling bills outright at a time when rates are expected to fall. They prefer to sell bills to offset the day-to-day shortage, and buy the paper back from the central bank at a later date. This is because of the high yield on existing paper, set against the falling cost of borrowing money.

Colin Millham

£ IN NEW YORK

Feb.3	Close	Previous Close
£ Spot	1.7420-1.7430	1.7535-1.7545
1 month	[illegible]	[illegible]
3 months	[illegible]	[illegible]
12 months	[illegible]	[illegible]

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Feb.3	Previous
8.30 am	98.0	97.9
9.00 am	97.9	97.8
10.00 am	97.9	97.9
11.00 am	98.0	97.9
Noon	98.0	98.0
1.00 pm	97.9	98.0
2.00 pm	97.9	98.0
3.00 pm	97.8	97.9
4.00 pm	97.8	98.0

CURRENCY RATES

Feb.3	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	[illegible]	[illegible]	[illegible]

*All SDR rates are for Feb.2

CURRENCY MOVEMENTS

Feb.3	Bank of England Index	Morgan Guaranty Changes %
Sterling	97.8	-14.1
U.S. Dollar	67.8	-11.0

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) Rates are for Feb.2.

OTHER CURRENCIES

Feb.3	£	$
Argentina	[illegible]	[illegible]

*Selling rate

EURO-CURRENCY INTEREST RATES

Feb.3	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years 9⅞-9¾ per cent; three years 9⅞-9¾ per cent; four years 9⅞-9¾ per cent; five years 9⅞-9¾ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Feb.3	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.742	3.272	225.7	11.13	2.780	3.695	2389	2.063	68.7
$	0.574	1	1.878	129.6	6.389	1.596	2.121	1371	1.184	39.44
DM	0.306	0.532	1	68.98	3.402	0.850	1.129	730.1	0.631	21.00
YEN	4.431	7.718	14.50	1000.	49.31	12.32	16.37	10585	9.140	304.4
F Fr.	0.898	1.565	2.940	202.8	10.	2.498	3.320	2146	1.854	61.73
S Fr.	0.360	0.627	1.177	81.19	4.004	1	1.329	859.4	0.742	24.71
H Fl.	0.271	0.471	0.886	61.08	3.012	0.752	1	646.5	0.558	18.59
Lira	0.419	0.729	1.370	94.47	4.659	1.164	1.547	1000.	0.864	28.76
C $	0.485	0.844	1.586	109.4	5.395	1.348	1.791	1158	1	33.30
B Fr.	1.456	2.536	4.763	328.5	16.20	4.047	5.378	3477	3.003	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

POUND SPOT- FORWARD AGAINST THE POUND

Feb.3	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7405-1.7465	1.7410-1.7420	[illegible]	[illegible]	[illegible]	[illegible]

Belgian rate is for convertible francs. Financial franc 68.90-69.00. Six-month forward dollar 2.47-2.42cpm 12 months 3.92-3.82cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Feb.3	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7405-1.7465	1.7410-1.7420	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 39.55-39.65.

MONEY MARKETS

Discounting too much good news

THREE-MONTH sterling interbank dipped below the 13 per cent level of UK bank base rates last week, but not everyone believes a cut in base rates is only as far away as next month's Budget. Even those that think an early cut is on the cards have reservations about whether it is a good idea.

Mr Roger Bootle, chief UK economist at Greenwell Montagu Gilt-Edged, admits to having a reputation as a bear, but feels the markets are discounting too much good news. He believes 13 per cent base rates could be with us for some time yet, and does not completely rule out a rise to 14 per cent.

Mr Stephen Lewis was until recently a director and head of economic research at UBS Phillips and Drew. He now offers economic advice independently under the name of Fifth Horseman Publications. Mr Lewis fears that Mr Nigel Lawson, the Chancellor of the Exchequer, will be tempted to go for an early reduction in base rates. He tells his readers to watch out for a "premature cut in UK interest rates to set the stage for a spring sterling crisis."

He adds that Mr Lawson would do well to resist the temptation, because sterling needs an interest rate differential to keep up the inflow of hot money. Mr Lewis takes the view that the differential is likely to be reduced as West Germany increases interest rates to curb inflation. Rumours about higher rates from the Bundesbank's council meeting last Thursday proved unfounded, but nervousness about a rise in German rates is unlikely to fade while the D-Mark remains weak.

UK clearing bank base lending rate
13 per cent
from November 25

MONEY RATES

NEW YORK (4pm) — Treasury Bills and Bonds

Prime rate	10½	One month	8.09
Broker loan rate	10¼	Two month	8.52
Fed. funds	9¼	Three month	8.58
Fed. funds at intervention		Six month	9.03
		One year	9.10
		Two year	9.23

Feb.3	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7.25

LONDON MONEY RATES

Feb.3	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Treasury Bills (sell): one-month 12⅛ per cent; three months 12⅛ per cent; Bank Bills (sell): one-month 12⅞ per cent; three months 12⅞ per cent; Treasury Bills: Average tender rate of discount 12.3133 p.c. ECGD Fixed Rate Sterling Export Finance. Finance Houses Base Rate 13½ from February 1, 1989. Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 9½ per cent; one-three months 11 per cent; three-six months 11 per cent; six-nine months 11 per cent; nine-twelve months 11 per cent; Under £100,000 9¾ per cent from December 1,1988. Deposits withdrawn for cash 5 per cent.

FT LONDON INTERBANK FIXING

(11.00 a.m. Feb.3) 3 months US dollars: bid 9⅞ offer 9⅞ — 6 months US Dollars: bid 9⅞ offer 9⅞

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

	Feb.3	Jan.27		Feb.3	Jan.27
Bills on offer	£100m	£100m	Top accepted rate of discount	12.3339%	12.3358%
Total of applications	£474m	£474m	Average rate of discount	12.3133%	12.3135%
Total allocated	£100m	£100m	Average yield	12.7058%	12.7024%
Minimum accepted bid	£96.925	£96.900	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	[illegible]	[illegible]			

WEEKLY CHANGE IN WORLD INTEREST RATES

LONDON	Feb.3	change	NEW YORK	Feb.3	change
Base rates	13	Unch'd	Prime rates	10½	Unch'd
7 day Interbank	13	[illegible]	Federal Funds	9⅛	[illegible]
3 month Interbank	12⅞	[illegible]	3 Mth. Treasury Bills	8.49	[illegible]
Treasury Bill Tender	12.3338	+0.0213	6 Mth. Treasury Bills	8.58	[illegible]
Band 1 Bills	12⅞	Unch'd	3 Mth. CD	9.275	[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of stocks per grouping	FRIDAY FEBRUARY 3 1989 US Dollar Index	% Change Since Dec.30 88	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY FEBRUARY 2 1989 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1988/89 High	1988/89 Low	Year ago (approx)
Australia (90)	150.78	+4.4	128.36	114.02	4.65	152.61	129.22	114.09	157.12	91.16	95.23
Austria (18)	94.55	-1.4	80.49	92.23	2.67	94.87	80.33	92.07	100.00	83.72	86.96
Belgium (63)	133.00	-1.6	113.22	129.88	3.96	134.23	113.65	130.09	139.89	99.14	111.39
Canada (125)	135.89	+8.2	115.68	117.09	3.12	135.91	115.08	116.92	135.91	107.06	108.70
Denmark (39)	155.25	-0.9	132.17	154.25	1.97	155.75	131.87	153.95	161.60	111.42	114.74
Finland (26)	135.30	+3.4	115.19	122.64	1.42	135.45	114.68	122.52	139.83	106.78	110.95
France (131)	118.60	+3.1	100.97	118.92	2.73	118.69	100.49	118.36	119.33	72.77	78.77
West Germany (102)	84.28	-4.2	71.75	82.31	2.30	84.11	71.22	81.75	90.40	67.78	69.71
Hong Kong (45)	129.37	+15.7	110.13	129.55	3.83	127.46	107.92	127.66	129.37	84.90	87.18
Ireland (17)	135.56	+2.9	115.41	134.00	3.83	135.85	115.02	133.86	144.25	104.60	109.86
Italy (98)	79.02	-7.2	67.27	80.97	2.49	79.57	67.37	81.17	86.88	62.99	65.58
Japan (456)	192.11	+0.3	163.55	157.38	0.48	191.98	162.55	156.72	197.43	133.61	147.98
Malaysia (36)	156.63	+9.2	133.34	164.53	2.59	154.82	131.08	162.57	156.63	107.83	111.22
Mexico (13)	161.66	-0.1	137.62	409.17	1.25	161.81	137.00	409.20	182.24	90.07	137.54
Netherland (38)	113.43	+0.9	96.57	109.88	4.51	113.52	96.12	109.32	115.04	95.23	97.44
New Zealand (24)	73.96	+9.4	62.97	63.91	6.16	72.61	61.48	63.57	84.05	63.32	67.35
Norway (26)	156.10	+12.4	132.90	143.18	1.90	157.00	132.93	143.89	161.54	98.55	99.53
Singapore (26)	139.48	+11.5	118.74	124.15	2.15	139.08	117.76	123.70	139.53	97.99	101.43
South Africa (60)	122.09	+4.5	103.94	106.54	4.43	124.14	105.11	106.00	139.07	98.26	121.37
Spain (42)	145.28	-2.1	123.68	128.99	3.66	144.61	122.44	129.38	164.47	130.73	135.04
Sweden (35)	150.09	+3.8	127.77	141.59	2.13	150.22	127.19	141.10	150.22	96.92	107.04
Switzerland (57)	75.60	-3.2	64.36	74.80	2.27	75.83	64.21	74.56	86.75	74.13	78.25
United Kingdom (314)	150.26	+11.0	127.92	127.92	4.24	148.95	126.12	126.12	150.26	120.66	126.31
USA (569)	120.82	+6.8	102.86	120.82	3.54	120.71	102.21	120.71	120.99	99.19	102.55
Europe (1006)	118.97	+3.8	101.28	109.29	3.49	118.57	100.39	108.40	119.66	97.01	98.54
Nordic (126)	143.63	+2.9	122.27	132.73	1.98	143.93	121.87	132.48	144.52	98.11	104.40
Pacific Basin (677)	187.74	+0.8	159.82	154.20	0.69	187.62	158.85	153.55	192.26	130.81	143.56
Euro-Pacific (1683)	160.23	+1.7	136.41	136.33	1.54	159.99	135.46	135.59	161.61	120.36	125.57
North America (694)	121.63	+6.8	103.55	120.62	3.51	121.53	102.90	120.51	121.75	99.78	102.88
Europe Ex. UK (692)	99.71	-1.7	84.89	97.74	2.84	99.83	84.53	97.44	102.91	80.27	81.32
Pacific Ex. Japan (221)	135.21	+8.5	115.11	113.95	4.27	135.27	114.54	113.37	137.41	87.51	90.29
World Ex. US (1881)	159.01	+1.9	135.37	135.53	1.60	158.80	134.46	134.81	160.23	120.26	124.96
World Ex. UK (2136)	143.67	+2.6	122.31	130.81	1.99	143.62	121.60	130.43	143.93	111.77	115.30
World Ex. So. Af. (2390)	144.38	+3.3	122.92	130.69	2.18	144.20	122.09	130.17	144.48	113.26	116.24
World Ex. Japan (1994)	121.27	+5.8	103.24	116.51	3.54	121.09	102.52	116.07	121.36	100.00	101.08
The World Index (2450)	144.24	+3.3	122.80	130.53	2.20	144.08	121.99	130.01	144.36	113.37	116.27

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.62 (US $ Index), 114.42 (Pound Sterling) and 123.18 (Local).

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CONSTITUENT CHANGES: Deletions: Jan. 30: Indal (Canada) and Irish Distillers (Ireland). Feb.1 Lorimar Telepictures (U.S.).

EUROPEAN OPTIONS EXCHANGE

Series		Feb. 89 Vol	Last	May 89 Vol	Last	Aug. 89 Vol	Last	Stock
GOLD C	$400	66	2.10	32	13	-	-	$390.60
GOLD C	$440	-	-	60	2.40	10	6.50	$390.60
GOLD C	$480	-	-	-	-	80	2	$390.60
GOLD P	$380	30	1.10	136	4.70	-	-	$390.60
GOLD P	$390	97	3.50 A	44	8.50 A	-	-	$390.60

TOTAL VOLUME IN CONTRACTS : 43,782
A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	13	City Merchants Bank	13	NatWestminster	13
Adam & Company	13	Clydesdale Bank	13	Northern Bank Ltd	13
AAB - Allied Arab Bk	13	Comm.Bk.N.East	13	Norwich Gen. Trust	13
Allied Irish Bank	13	Co-operative Bank	*13	PRIVATbanken Limited	13
● Henry Ansbacher	13	Coutts & Co	13	Provincial Bank PLC	14
ANZ Banking Group	13	Cyprus Popular Bk	13	R. Raphael & Sons	13
Associates Cap Corp	13	Dunbar Bank PLC	13	Roxburghe Guarantee	13½
Authority Bank	13	Duncan Lawrie	13	Royal Bk of Scotland	13
● B & C Merchant Bank	13	Equatorial Bank plc	13	Royal Trust Bank	13
Bank of Baroda	13	Exeter Trust Ltd	13½	● Smith & Williamson Secs	13
Banco Bilbao Vizcaya	13	Financial & Gen. Bank	13	Standard Chartered	13
Bank Hapoalim	13	First National Bank Plc	14	TSB	13
Bank Credit & Comm	13	● Robert Fleming & Co	13	United Bk of Kuwait	13
Bank of Cyprus	13	Robert Fraser & Ptrs	13½	United Mizrahi Bank	13
Bank of Ireland	13	Girobank	13	Unity Trust Bank Plc	13
Bank of India	13	● Guinness Mahon	13	Western Trust	13
Bank of Scotland	13	HFC Bank plc	13	Westpac Bank Corp	13
Banque Belge Ltd	13	● Hambros Bank	13	Whiteaway Laidlaw	13½
Barclays Bank	13	Heritable & Gen Inv Bnk	13	Yorkshire Bank	13
Benchmark Bank	13	● Hill Samuel	§13		
Beneficial Trust Ltd	13	C. Hoare & Co	13		
Berliner Bank AG	13	Hongkong & Shangh	13		
Brit Bk of Mid East	13	● Leopold Joseph & Sons	13		
● Brown Shipley	13	Lloyds Bank	13		
Business Mtge Tst	13½	Meghraj Bank Ltd	13		
CL Bank Nederland	13	Midland Bank	13		
Central Capital	13	Mortgage Express Ltd	[illegible]		
● Charterhouse Bank	13	Mount Banking Corp	13		
Citibank NA	13	Nat Bk of Kuwait	13		

● Members of British Merchant Banking & Securities Houses Association. * Deposit rate 6.52%. Sweetie 8.47%. Top Tier-£10,000 + at 3 months notice 11.72% § Mortgage base rate. ‡ Demand deposit 8%. Mortgage 13.625% - 14.00%.

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1988/89 High	Low	Stock	Closing Price p	+or-	Net Div.	Times Covd.	Gross Yield	P/E Ratio
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1988/89 High	Low	Stock	Closing Price £	+or-
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

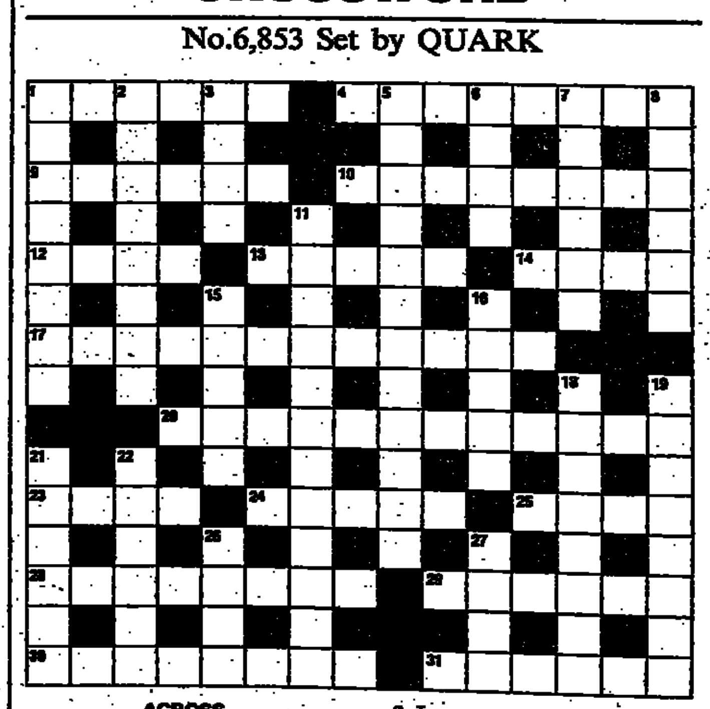
RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1988/89 High	Low	Stock	Closing Price p	+or-
130	Nil	-	25pm	15pm	[illegible]	25pm	+1
330	Nil	-	125pm	67pm	[illegible]	125pm	+25

JOTTER PAD

CROSSWORD

No.6,853 Set by QUARK



ACROSS

1 Sailor's hold (6)
4 Famous figures seen still? (8)
9 Cause to fester in the right joint (6)
10 Abolish the tatty boat gear (8)
12 Long for some Bach entertainment (4)
13 Meal first taken around The Bull (5)
14 There's money for enjoyment at beginning of December! (4)
17 Train out of the ordinary for two consecutive games (6-6)
20 Some vessels catching up fast? (7,5)
23 Vehicle trading centre returns (4)
24 Look hard at the revised rates! (5)
25 The old boy in the house is a tramp (4)
28 Cornish place that's a sort of inlet around a point (8)
29 Keep the army in control (6)
30 Fill in the beginner entering to take part (8)
31 Suspension of speech after several drinks? (6)

DOWN

1 A standard is 'elpful in landing place (8)
2 Journey over great distance and yearn for meeting place, we hear (4,4)
3 Go back to the French for an amorous look (4)
5 Such social behaviour enables right man to mix well (5,7)
6 Stole top off the corn? (4)
7 Part of slab a customer used as counter (6)
8 Submits returns (6)
11 President getting a grilling could be? (2,3,3,4)
15 Get stitch in the countryside (5)
16 Pottery left for repair after bit of damage (5)
18 Carefree girl presented for broadcast (8)
19 New York to rate crooked lawyer? (8)
21 Fixed electricity charge (6)
22 Plenty of drink for an opus? (6)
26 One hears a man will get this post (4)
27 Explain he's part of a legend (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday February 18.

هكذا من الأصل

WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FINLAND

[illegible]

FRANCE

[illegible]

FRANCE (continued)

[illegible]

GERMANY (continued)

[illegible]

ITALY (continued)

[illegible]

NETHERLANDS

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

SOUTH AFRICA

[illegible]

JAPAN

[illegible]

AUSTRALIA

[illegible]

AUSTRALIA (continued)

[illegible]

HONG KONG

[illegible]

SINGAPORE

[illegible]

NOTES – Prices on this page are as quoted on the individual exchanges and are last traded prices. [illegible]

CANADA

TORONTO

Closing prices February 3

Sales	Stock	High	Low	Close	Chng
69658	Cineplex	$19	18⅝	18⅝	
1100	Co Steel f	$18¼	18¼	18¼	– ⅛
94792	Cominco	$27⅛	26¾	27	
3115	Computing	$5	5	5	
92385	Connaught	$28¾	27⅞	28⅛	– ½
617292	Con Bath A	$24½	24⅜	24½	
600	C HCI A f	$9	9	9	+ ⅛
48100	Con TVX	$6½	6⅜	6⅜	
4225	Cnsum Gas	$24⅞	24⅝	24⅝	– ⅛
57000	Cnsum Pkg	$21⅛	21⅛	21⅛	– ⅛
12314	Ipsco	$20⅛	20⅛	20½	
4100	Ivaco A f	$11⅞	11⅝	11⅞	+ ⅛
210	Ivaco B	$12⅛	12⅛	12⅛	+ ⅜
87300	Jannock	$21¾	21½	21¾	+ ⅛
2010	Kerr Add	$23½	23⅜	23½	+ ½
87501	Labatt	$23¼	22⅞	23¼	+ ¼
84105	Lac Mnrls	$12⅝	12½	12⅝	
279	Lafarge p	$19½	19½	19½	– ¼
20885	Laidlaw A	$20⅝	20¼	20½	
230978	Laidlw B f	$19⅝	19⅜	19½	+ ⅛
1100	SNC A f	$6⅜	6⅜	6⅜	+ ⅛
5700	StL CemA f	$16½	16¼	16½	– ⅛
16300	Samuel MT	$17	16⅞	16⅞	+ ½
2600	Saskoil	$9⅜	9¼	9¼	– ⅛
19700	Sceptre	375	375	375	
300	Schneider A	$24⅞	24⅞	24⅞	– ⅝
2272	Scot Paper	$19½	19⅛	19½	+ ½
16840	Scotts f	$14¼	13⅞	13⅞	– ⅜
1300	Scotts C	$14¾	14½	14¾	+ ⅛
34611	Seagram	$84⅜	82⅞	82⅞	– ¾

[illegible]

F – No voting rights or restricted voting rights.

MONTREAL

Closing prices February 3

Sales	Stock	High	Low	Close	Chng
18027	DomTxtA	$16	15⅝	16	+ ⅜
38216	MntTrst	$17¼	16⅞	17¼	+ ⅜
220213	NatBk Cda	$13⅜	13⅛	13¼	– ⅛
16841	Noverco	$11⅞	11½	11⅝	
86385	Power Corp	$15½	15⅜	15⅜	– ⅛
113408	Provigo	$11	10⅞	10⅞	– ⅛
132477	Royal Bank	$40⅛	39⅞	40	+ ⅛
2050	SteinbrgA	$34	33⅞	34	
1204	Videotron	$15⅞	15⅝	15¾	– ⅛

[illegible]

Total Sales 9,084,987 shares.

INDICES

NEW YORK DOW JONES

	Feb 3	Feb 2	Feb 1	Jan 31	1988/89 High	1988/89 Low	Since compilation High	Since compilation Low
♦Industrials	2331.25	2333.75	2338.21	2342.32	2342.32 (31/1/89)	1879.14 (20/1/88)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	89.37	89.49	89.49	89.34	91.25 (3/3/88)	86.12 (4/1/88)	–	–
Transport	1083.44	1076.85	1070.69	1071.50	1083.44 (3/2/89)	737.57 (21/1/88)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	189.54	189.96	189.54	190.97	191.15 (24/1/89)	167.26 (20/4/88)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2348.75 (2352.86) Low 2319.29 (2319.64)

STANDARD AND POOR'S	Feb 3	Feb 2	Feb 1	Jan 31	1988/89 High	1988/89 Low	Since compilation High	Since compilation Low
Composite ‡	296.97	296.84	297.09	297.47	297.47 (31/1/89)	242.63 (20/1/88)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	343.84	343.62	343.87	344.20	344.20 (31/1/89)	277.86 (20/1/88)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	26.76	26.67	26.68	26.71	26.76 (3/2/89)	21.51 (8/1/88)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	166.50	166.35	166.47	166.63	166.63 (31/1/89)	136.72 (20/1/88)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	324.88	324.52	323.24	323.02	324.88 (3/2/89)	262.76 (12/1/88)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	406.35	405.16	403.23	401.30	406.35 (3/2/89)	331.97 (12/1/88)	455.28 (26/8/87)	54.87 (31/10/72)

	Jan 27	Jan 20	Jan 13	year ago (approx.)
Dow Industrial Div. Yield	3.46	3.59	3.60	3.53
	Feb 1	Jan 25	Jan 18	year ago (approx.)
S & P Industrial div. yield	3.05	3.12	3.13	3.15
S & P Indl. P/E ratio	13.79	13.40	13.30	15.96

TRADING ACTIVITY † Volume Millions

	Feb 3	Feb 2	Feb 1
New York	172.980	183.430	215.640
Amex	13.520	17.370	12.820
OTC	143.345	163.793	152.894

NEW YORK	Feb 3	Feb 2	Feb 1
Issues Traded	1,937	1,949	1,959
Rises	778	755	731
Falls	634	648	703
Unchanged	525	546	525
New Highs	97	93	127
New Lows	7	6	12

CANADA

TORONTO	Feb 3	Feb 2	Feb 1	Jan 31	1988/89 High	1988/89 Low
Metals & Minerals	3560.2	3550.7	3558.1	3539.2	3560.2 (3/2/89)	2238.7 (8/2/88)
Composite	3667.0	3653.5	3640.6	3616.6	3667.0 (3/2/89)	2977.9 (8/2/88)
MONTREAL Portfolio	1837.81	1828.98	1826.13	1813.19	1837.81 (3/2/89)	1305.06 (27/1/88)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
RJR Nabisco	5,430,300	98⅜	+ ⅛	Pan Am	1,911,700	3½	+ ⅛
Navistar	2,423,600	6⅜	+ ⅜	AT&T	1,840,500	32⅛	+ ⅛
Weyerhaeuser	2,150,900	26½	+ ⅜	SmithKline	1,750,500	49¾	– 1⅞
Wisconsin	2,037,200	25¾	....	Lockheed	1,623,100	48	+ 1
AMR Corp	1,991,500	62¼	+ 2⅝	Can-Pacific	1,602,900	21⅛	+ ⅜

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Feb. 3	Feb. 2	Feb. 1	Jan. 31	1988/89 High	1988/89 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1512.0	1510.5	1530.8	1551.7	1657.8 (9/8/88)	1170.7 (10/2/88)
All Mining (1/1/80)	688.9	688.1	702.5	723.4	847.8 (9/8/88)	532.4 (10/2/88)
AUSTRIA						
Credit Aktien (30/12/84)	234.10	233.50	233.80	234.40	236.20 (25/1/89)	163.98 (11/2/88)
BELGIUM						
Brussels SE (1/1/84)	5753.22	5762.50	5790.50	5801.80	5801.80 (31/1/89)	3608.36 (4/1/88)
DENMARK						
Copenhagen SE (3/1/83)	(u)	287.30	287.41	285.68	289.22 (19/1/89)	180.68 (4/1/88)
FINLAND						
Unitas General (1975)	755.4	754.4	749.9	748.2	772.1 (8/8/88)	530.6 (15/1/88)
FRANCE						
CAC General (31/12/82)	457.1	451.7	449.0	448.7	457.1 (3/2/89)	251.3 (29/1/88)
Ind. Tendance (30/12/88)	108.1	107.6	107.0	105.9	108.1 (3/2/89)	100.0 (1/1/89)
GERMANY						
FAZ Aktien (31/12/58)	558.9	552.00	548.96	556.15	567.51 (5/1/89)	396.40 (29/1/88)
Commerzbank (1/12/53)	1670.7	1650.3	1640.2	1662.2	1705.6 (5/1/89)	1207.9 (29/1/88)
DAX (30/12/87)	1326.36	1319.56	1300.52	1312.73	1371.10 (5/1/89)	931.18 (28/1/88)
HONG KONG						
Hang Seng Bank (31/7/64)	3105.96	3059.54	3060.91	3072.86	3105.96 (3/2/89)	2223.56 (8/2/88)
ITALY						
Banca Com. Ital. (1972)	580.46	581.19	592.57	599.36	615.89 (17/1/89)	423.91 (9/2/88)
JAPAN						
Nikkei (16/5/49)	31685.78	31498.30	31360.68	31581.3	31685.78 (3/2/89)	21217.04 (4/1/88)
Tokyo SE (Topix) (4/1/68)	2465.62	2456.35	2445.05	2464.83	2478.12 (28/1/89)	1690.44 (4/1/88)
NETHERLANDS						
ANP-CBS General (1970)	289.2	295.6	292.7	307.4	310.1 (30/1/89)	205.7 (4/1/88)
ANP-CBS Industrial (1970)	269.8	267.3	264.2	271.5	271.5 (31/1/89)	157.9 (11/1/88)
NORWAY						
Oslo SE (4/1/83)	538.07	541.02	539.29	545.05	549.44 (30/1/89)	327.78 (28/1/88)
SINGAPORE						
Straits Times Ind. (30/12/66)	1143.43	1128.34	1137.01	1133.32	1177.87 (8/8/88)	833.60 (4/1/88)
SOUTH AFRICA						
JSE Gold (28/9/78)	1301.0‡	1306.0	1307.0	1327.0	1451.0 (7/7/88)	1154.0 (4/5/88)
JSE Industrial (28/9/78)	2148.0‡	2140.0	2124.0	2139.0	2158.0 (26/1/89)	1387.0 (12/2/88)
SPAIN						
Madrid SE (30/12/85)	279.42	280.22	278.79	283.10	301.63 (15/6/88)	225.50 (4/1/88)
SWEDEN						
Jacobson & P. (31/12/56)	3647.4	3646.0	3634.4	3614.0	3647.4 (3/2/89)	2148.5 (4/1/88)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	625.9	624.6	626.7	627.5	634.2 (16/1/89)	466.6 (13/1/88)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	509.7	508.9	511.5	512.0 (27/1/89)	401.0 (21/1/88)

‡Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO – Most Active Stocks

Friday 3 February 1989

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Kobe Steel	78.7m	780	+38	Hazama	38.2m	1,150	+50
Taisei	63.4m	1,450	+50	JGC	34.7m	1,270	+30
NKK	45.9m	780	+20	Sumitomo Metal	31.0m	774	+11
Sato Kogyo	53.2m	1,850	+150	Tokyu Construc.	29.2m	1,040	+76
Nishimatsu	48.7m	1,320	+170	Fujita	28.8m	1,100	+50

4pm prices February 3

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
28⅛	17½	AAR	.44	1.6	18	1049	26⅞	26	26⅜	+ ½
10⅛	8⅞	ACM n	1.01	11.		480	9⅜	9¼	9¼	– ⅛
12⅛	10¼	ACMIn	1.26a	11.		580	11⅛	10⅞	11	
10⅛	9½	ACM M	n1.01	11.		z159	9⅜	9¼	9⅜	+ ¼
12⅛	10⅛	ACM Sc	1.28	12.		562	10⅜	10⅜	10⅜	
10⅛	8½	ACMSp	n.75e	9.3		389	9⅛	8	8	
5⅛	2⅝	AMCA	.12e	3.1		68	3⅞	3⅝	3⅞	+ ⅛
6⅛	3⅜	AM Intl				270	5⅜	5½	5⅝	+ ⅛
23⅛	19⅛	AM Int pf	2	8.8		8	22⅜	22⅝	22⅝	– ⅛
60⅛	33¾	AMR			8	20053	u61⅞	59½	61⅛	– 2⅛
8½	5	ARX				210	5⅜	5	5⅛	– ⅛
48⅛	35⅛	ASA	3e	7.5		250	40⅛	39⅛	40⅛	– ⅛
20⅛	13⅛	AVX	.24	1.3	13	951	18⅞	18⅛	18⅞	– ½
52⅜	42⅞	AbtLab	1.20	2.4	15	5386	50	49	50	+ ⅛
20⅛	15⅜	Abitibi g	1			150	17⅜	17⅛	17⅜	+ ⅜
13⅞	7½	AcmeC	.40	3.9		51	10⅜	10	10¼	+ ⅛
8⅞	5⅞	AcmeE	.32b	5.0	23	12	6½	6⅛	6⅜	
29½	17⅛	Acuson			25	312	27	26⅜	26⅜	– ½
17	14½	AdaEx	1.82e	12.		212	15	14⅞	14⅞	– ⅛
16⅞	7⅛	AMD			85	7815	9⅝	9⅛	9⅜	
43½	28⅛	AMD pf	3	9.4		209	32	31½	32	+ ⅛
8½	6⅛	Adobe				11	7⅛	7	7	
18½	16½	Advb pf	1.84	11.		10	17⅜	17	17⅜	+ ⅜
9⅜	5⅞	Advest	.12	1.4	18	221	8⅛	8⅛	8⅝	+ ⅛
52½	39½	AetnLf	2.76	5.4	8	2330	50⅜	49⅝	50⅜	+ 1
44½	24	AffPb s	.22	.5		692	41⅛	41⅛	41⅝	
18⅝	13⅛	Ahmans	.88	4.9	9	1789	18	17⅛	17⅞	
4⅝	1⅞	Aileen			21	47	3⅝	3½	3⅝	
53⅜	37⅛	AirPrd	1.20	2.6	12	1080	47	46⅜	46½	– ½
24	12⅞	AirbFrt	.60	2.8	22	420	22½	21½	21⅝	– ⅝
18	10	Airgas			19	68	17⅜	17⅛	17⅛	– ⅛
20	17⅜	Airlease	2.40	12.	9	42	19⅝	19⅜	19⅜	+ ⅛
9⅜	8½	AlaP dpf	.87	9.6		66	9⅛	9	9⅛	– ⅜
108	102	AlaP pf	11	10.		z30	105	105	105	– 1
87	79½	AlaP pf	8.28	9.9		z200	84	84	84	
23	14	AlskAir	.20	.9	11	1968	22⅞	22½	22⅝	
19⅜	12	Albrtsn	.25	1.4	13	483	18⅝	18⅛	18⅛	– ½
38⅛	24½	Alberto	.38	1.0	19	44	38⅛	35½	38	
29⅛	18½	AlbCulA	.38	1.2	15	18	29	28⅜	29	
42½	26½	Albtsn	.58	1.3	19	632	u43	42	43	+ ⅛
36⅛	23½	Alcan s	1.20	3.4	6	2990	35⅜	35	35⅛	– ½
28	20½	AlcoStd	.76	2.8	12	280	27⅛	26⅝	27⅛	+ ⅜
28⅛	19⅛	AlexAlx	1	4.3	16	490	23⅜	23⅛	23⅜	+ ⅛
77	45⅝	Alexdr			89	8	64	63⅛	64	– ⅛
81	69	AllegCp			12	13	u83	81½	83	+ 2
5⅜	1⅛	vjAlgInt				121	2	1⅞	2	+ ⅜
10⅜	2	vjAlgI pr				60	4	3⅛	4	+ ⅜
34	7½	vjAlgI pfC				8	14⅛	14⅛	14⅜	+ ⅛
34⅝	19⅜	AlgLud	1a	2.9	7	948	34½	33⅛	34⅜	
41½	35⅞	AllgPw	3.08	8.2	10	641	37⅜	37⅝	37⅜	+ ⅛
19½	8⅜	AllenG				74	15⅛	15⅛	15⅛	
18⅜	12⅛	Allen pf	1.75	9.8		5	17⅞	17⅛	17⅞	+ ⅛
11⅛	8⅝	AlnCap	n1.33	11.	24	276	11⅜	11½	11⅜	+ ⅜
21	12⅝	AlldPd				38	16½	16⅛	16⅜	
38⅞	30⅛	AldSgnl	1.80	5.2	11	3273	34⅞	34⅜	34⅝	– ⅜
10⅜	9⅝	AlstMu	.78a	7.4		143	10⅝	10½	10½	
10	10	AlsMuP n				11	10	10	10	
10⅜	9⅛	AlsMII	n.50e	5.0		239	10	9⅛	10	+ ⅛
10½	9⅞	AlsMO	n.13e			138	10⅜	10⅛	10⅜	
37⅜	28⅛	ALLTEL	1.72	4.6	13	530	37⅜	37	37⅜	+ ½
65⅜	38⅝	Alcoa	1.60e	2.5	7	4706	64⅛	62½	63½	– ⅜
19	11⅛	AmaxG	.08	.5	18	28	14⅞	14⅝	14⅛	
27⅛	15⅛	Amax	.40	1.5	14	1579	26⅞	26½	26⅛	– ⅛
44	38	Amax pf	3	7.0		7	43	43	43	
15⅛	8⅛	Amcast	.48	3.7	10	216	13⅜	13	13⅛	– ⅜
34⅛	25⅛	AmHes	.60	1.8	22	4014	32⅞	32⅝	32⅞	– ⅛
23	14⅛	ABarck	.10e	.5		893	19⅜	19⅜	19⅜	+ ⅛
71⅛	42⅛	AmBrnd	2.44	3.8	11	3030	64⅜	64⅛	64⅜	– ⅜
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Continued on Page 37

NYSE COMPOSITE PRICES

Continued from previous Page

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12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Chng
3⅞	2	Zapata				212	3	2¾	3	
27⅛	16⅝	Zayre	.40	1.6	167	x1569	25	24¾	25	+ ⅛
15⅛	10	Zemex	.40	3.3	25	24	12	11¾	12	
30	14½	ZenithE				8283	20⅞	19⅜	20½	+1
10¾	6⅞	Zenin n	.89e	7.1		75	9⅞	9⅝	9⅞	+ ⅛
3	1	vjZenLb				152	1⅛	1⅛	1⅛	
21⅝	15	ZeoNtl	.80b	4.5	8	287	18	17⅝	17⅞	
18⅝	13	Zero	.44	2.4	15	283	u18⅞	18⅜	18⅝	+ ⅛
29⅛	18	Zurnin	.68	2.4	18	184	28⅝	28⅛	28½	
11⅛	9⅛	Zweig	1.05e	10.		409	10¾	10½	10½	− ⅛
16⅞	9	ZweigT	n.24e	2.5		774	9¾	9½	9⅝	− ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4pm prices February 2

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
PopeEv			560	⅜	5-16	5-16	− ⅛
Prest B		125	60	5	5	5	
Prest A	.10		2	5⅛	5⅛	5⅛	
PrcsCm		1	187	8	7⅞	7⅞	
ProMed	.42		45	3⅝	3½	3½	− ⅛
ProfCre		9	10	3⅞	3⅞	3⅞	− ⅛

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OVER-THE-COUNTER

Nasdaq national market, 4pm prices February 2

Data omitted because of technical difficulties

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
CnBsh	.70	8	241	14½	14¼	14½	
CFidBk	1.16	9	226	27⅞	27⅜	27⅞	+ ⅛
CnSprn		11	82	17	16¾	17	− ¼
Cerner		12	29	13¾	13¼	13¾	+ ½
Cetus			874	11¼	11	11	− ¼
ChrmSh	.12	30	2923	16⅞	16⅜	16⅞	+ ⅜
ChtOne	.44	8	88	11	10¾	10¾	
ChkPt		80	228	9⅝	9⅜	9⅝	+ ⅛
Cheroke		24	331	12⅞	12¾	12¾	− ⅛
Cheshre	1	14	29	14½	14	14	− ½
ChldWld		20	234	13⅞	13½	13⅞	+ ⅛
Chilis		23	62	34½	34¼	34¼	− ⅛
ChipsTc		10	7941	17½	16¾	17½	+ ½
Chiron			345	15¼	14¾	14¾	− ½
Chronr			234	7⅞	7½	7½	− ⅛
ChrDwt	.24	14	1324	11½	11¼	11½	
CinnFn	1.76	8	83	61	60½	60½	− ⅛
Cintas	.13	24	198	u35½	34¾	35	+ ¾
Cipher		9	1814	9⅝	9⅛	9⅜	− ¼
CtzSCp	1.24	8	1926	27¼	26⅞	26⅞	− ¼
CtzBkg	1.08	9	3	24	24	24	− ⅛
CtzUt A	f	25	387	43½	43	43¼	+ ¼
CtzUt B	1.34	19	7	33¼	33	33	
CityFed	.04		171	4	3⅞	3⅞	+1-16
CtyNC	.84b	13	477	26¼	25½	25½	− ¼
Clarcor	1.05	12	100	32	31½	32	+ ½
CleanH		25	186	20¼	19¾	20¼	+ ¼
CliffDr			100	9	9	9	
Cloth			588	6⅛	5⅞	5⅞	− ⅛
CoOpBk	.60	8	183	9	8½	9	+ ⅝
CoastF		10	87	13½	13⅛	13½	+ ⅜
CobeLb		12	10	20¾	20¼	20¼	− ½
CocaBtl	.88		1060	26¾	26¼	26¼	− ½
Coherni			185	11¾	11½	11¾	+ ⅛
Colagen		198	149	11⅞	11⅝	11⅞	+ ¼
ColBcp	.20	7	35	8¼	8	8¼	+ ⅛
ColnGp	.40	5	9	14¼	14¼	14¼	+ ½

Stock	Div.	P/E	Sales 100s	High	Low	Last	Chng
HchgA	.16	15	1376	19½	19¼	19½	+ ¼
HchgB	.05	15	6	19½	19½	19½	+ ⅛
Heekin		9	228	27	26½	26⅝	+ ⅛
HelenT		7	583	16½	16⅛	16⅛	− ¼
Hemdy s			452	4⅝	4⅜	4½	
HrtgBc	.30	8	185	12⅞	12⅝	12⅞	+ ⅛
Hiber	1.08b	9	85	23	22¾	22⅞	
HighlSu		19	1918	7¼	6¾	7	
Hogan			270	5	4⅞	5	
HmCty	.36e	11	190	26	25¾	25¾	− ½
HmFTn	.40a	9	9	18½	17¾	18¼	+ ¼
Hmeinf		16	2225	3 15-16	3⅝	3 15-16	+5-
HmeSav	1.50	9	613	17¼	17¼	17⅜	+ ⅜
HORL		9	428	12	11¾	11¾	− ¼
Honind	.48	10	18	19	18⅞	18⅞	− ⅛
HBNJ	.60	7	556	18½	18	18	− ½
HuntJB	.24	16	157	25¾	25¼	25½	+ ¼
Hntgln	.24e	17	74	31½	30⅞	31½	
HuntB s	.74	8	801	18¼	18	18⅛	− ⅛
HutchT		18	759	13½	12¾	13	− ½
— I — I —							
IDB Cm		24	319	12½	12	12⅛	− ⅛
ISC		33	1497	10⅞	10⅝	10⅝	
Icot			147	2⅝	2⅜	2⅝	+ ⅛
Imunex			80	12⅞	12⅝	12⅞	+ ⅛
Imunmd			146	5⅛	4¾	4⅞	− ⅛
Imreg			598	4⅜	4⅛	4¼	+ ⅛
Inacmp		11	9	7¾	7½	7½	− ¼
IndBcp	1.16		243	19½	19¼	19½	
IndxTc		13	49	9⅛	8¾	8¾	− ⅛
IndlFdl	.30	11	23	12	11½	12	+ ½
IndNt s	1.08	9	285	27¾	27¼	27½	+ ¼
IndRes			1743	5⅛	4⅞	5⅛	+ ⅛
Infrmx		25	1586	10½	10	10⅛	− ⅛
InfoRes			5463	12⅞	11¾	11⅞	− ⅞
Inftrn			66	11¾	11½	11¾	+ ¼
IngMld	.22	12	188	10	9⅞	9⅞	
Insnac	.10	8	89	8	7¾	7¾	− ¼
Inspch			247	5¾	5	5¼	+ ¼

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The Business Column

Sometimes bigger may be better in Europe

Not before time, a growing body of sceptics is starting to question the doctrine that bigger will automatically mean better in Europe's internal market after 1992. But some of them risk throwing out the baby with the bathwater.

Belief in the need for bigger companies has been growing rapidly across Europe over the past 18 months, not just within governments and the European Commission, but in industry after industry. For manufacturers, one of the main impulses has been fear of inadequate European production scale in the face of US and Japanese competition.

Such worries, plus simple herd instinct, have helped turn the previous trickle of cross-border mergers and acquisitions into a flood. Alliances, too, are being forged almost by the day.

But the rush could be positively harmful to competitiveness, according to a London Business School report*. Production scale in most industries in Europe is already large enough to allow efficient operation, it claims. The idea that mass-market production of long runs of standard goods will increase in a single market is also false, the report argues. Instead, diversity of tastes across Europe – within and between national markets – may actually increase.

Too short a catalogue

The LBS catalogue of industries in which further scale-building can be economically justified is very short – it includes telecommunications and power engineering, both of whose natural concentration processes have been constrained in the past by myopic national purchasing or ownership policies.

The fundamental difficulty with the LBS study is not by how much that list is unrealistically short – as it almost certainly is. The problem is that the academics, like the governments and industrialists they attack, focus almost exclusively on the question of European scale versus diversity in end-products, rather than in intermediates. In other words, they are concerning themselves only with the economics and scale of final assembly plants.

As a few pioneers of pan-European acquisitions, such as Sweden's Electrolux, have demonstrated over the past few years, considerable scale benefits can be achieved higher up the value-added chain, in the production and sourcing of standard components and sub-assemblies. This is true even if the end-products containing such intermediates still have to be tailored to suit the diverse preferences of different countries, and of different market segments. The LBS study hints at this, but does not explore it.

In fragmented markets a large company can also reap scale advantages in the final assembly of certain product lines by creating a cross-border network of relatively small, specialised factories, with all the attendant advantages of better employee relations, fewer skill shortages and lower indirect overheads. In many industries flexible manufacturing techniques, which reduce optimum batch sizes, will at worst limit such benefits, not remove them.

Any company which tries to achieve such scale effects, whether through acquisition or internal growth, obviously runs the risk of creating so much complexity that organisational diseconomies outweigh the *benefits of large-scale sourcing and production*. Plenty of disasters certainly attest to that. But this is not necessarily the outcome, as Hewlett-Packard, IBM and several other US multinationals have demonstrated for years. It is both parochial and inadequate for the LBS study to cite a few poorly managed British companies, such as the BL car combine (now in new hands as Rover), in evidence for its case that such rationalisation rarely bears fruit.

There is no single truth about optimum scale in Europe. It will vary across industries, product lines, and – most important – organisations.

* *1992: Myths and Realities, edited by John Kay. Price £10. Centre for Business Strategy, LBS, Sussex Place, London NW1 4SA. Tel: 01-262-5050.*

Christopher Lorenz

THE MONDAY INTERVIEW

Retiring quietly into the limelight

Peter Montagnon and Will Dawkins speak to Frans Andriessen, the EC's newly appointed External Relations Commissioner

An aura of aloof austerity pervades the presence of Mr Frans Andriessen, the European Community's new External Relations Commissioner. It is a striking contrast to his Belgian predecessor Mr Willy de Clercq, whose flamboyant bow ties, cheerful grin and extrovert political style brought a rare flash of colour to international trade politics.

Mr Andriessen may lack this gift of showmanship, but his more staid exterior masks both thoughtfulness and an will of iron, as well as a unique experience of the Brussels culture. He is now the longest-serving Commissioner and the only one who pre-dates Mr Jacques Delors, the Commission's President.

He is an intensely private man of few extra-curricular interests. Like all good Dutchmen he enjoys the occasional cycle ride; he used to play tennis but finds little time for that now, although he still enjoys the challenge of giving lectures on subjects like ethics in politics. But now he has a job which will push him into the limelight, possibly even more than his last one as Commissioner in charge of agriculture.

For the next four years he will be the EC's main trade spokesman. It is to his pronouncements that people will be looking for signs of whether Europe will become a fortress in trade terms after the single market is introduced in 1992; it is to him they will look for a lead on the Community's commitment to the multilateral trading system and the General Agreement on Tariffs and Trade (Gatt), as well as for the shape of relations with the Community's main trading partners, the US, Japan and the members of the European Free Trade Association.

It would be easy, but somewhat rash, to assume that because Mr Andriessen is Dutch and because, unlike Mr de Clercq, he is more at home speaking English than French, he is one of those northern Europeans whose true heart belongs to the ideal of free and liberal trade.

In fact Mr de Clercq is probably less of a protectionist than some of his critics made out. Mr Andriessen knows he has to work within the system and the limits which that imposes. But he believes that, as a Commissioner, he can also operate within that system to achieve change, as his dogged determination in steering through significant reforms of the common agricultural policy shows.

Where trade is concerned, his philosophy begins with firm support for multilateralism which is couched in stronger language than that normally used by his predecessor.

"We have to recognise that in specific, concrete cases member states in the Community are sometimes tempted to go bilateral or to defend their own national interests. That's normal and that will be a constant debate within the Council (of Ministers) itself and between the Council and the Commission.

PERSONAL FILE

- **1929** Born Utrecht
- **1951** Doctorate in law, Utrecht University
- **1958-1967** Member Utrecht provincial assembly
- **1967-1977** Member of States-General second chamber
- **1977-1979** Minister of Finance
- **1980** Member of States-General first chamber
- **1981** European Commissioner *for competition and relations with European Parliament*
- **1985** Vice President European Commission for agriculture
- **1989** Vice President European Commission for external affairs

"The Commission has always taken the view that the multilateral approach is the final common interest of the Community. I think we should contribute to strengthening this multilateral approach as much as we possibly can. We shouldn't even avoid using pressure from outside if necessary to bring about a sufficient common position on that goal inside the Community, as we should exercise our willingness to go multilateral to bring others to avoid bilateral actions. There is an interdependence in this respect, and I'm prepared *to use every element I can use* to get the Community as multilateral as possible."

There is a marked distinction, he believes, between a Europe which is trying to win respect for multilaterally agreed rules of trade and the US with its predilection for unilateral actions against its trading partners.

He says Europe can make a virtue out of its decision not to retaliate against the US sanctions against the European ban on hormones in meat. He says the idea of Fortress Europe is misguided.

"It cannot be in our interest to close ourselves off from the world. Even in agricultural terms we haven't done that. We have, of course, protection; we have Community preferences (for example in trade with Efta and certain developing countries); but we have a great deal of openings as well."

For all these reasons, he believes a solution must be found to the deadlock between the US and the EC over world farm reform. Moreover, it cannot be allowed to derail the Uruguay Round of multilateral trade negotiations. "That price," he says, "would be too high" – even given the special role of agriculture in the EC.

He says the EC is willing to re-examine its own thinking, but a prior condition is that the US must also move away from its insistence on an eventual abolition of all trade-distorting subsidies. "If the US continues to take this position, and continues to refuse any measures on short-term reform as long as there is no agreement on *their* long-term goal, I don't see how we could break this deadlock."

It is wrong to assume that these differences will be resolved by the time the Uruguay Round talks resume in April, or even that an agreement will be reached by then on a definition of a long-term goal for farm reform.

"We should avoid creating an atmosphere in which people now would believe that basically we have to settle the problem in April. That will not happen. What we have to create in April is a new start of negotiation. That's what it's all about. It's not a matter of fudging things, but don't expect that April could bring a basic solution."

Mr Andriessen strongly defends the EC's controversial anti-dumping rules. He says his critics have failed to understand that both in content and in execution the EC is fully within the prescriptions of the Gatt, though he hints that the rules might at some stage be applied less rigorously.

"I don't see for the moment that we should change our law, the Community law. The other story is whether we should be prepared to look into the existing law in the Gatt framework. I'm not convinced that that is necessary, but if there were general agreement to do that, I don't think we would oppose it.

"Of course there is always some margin of manoeuvre in our application of the law and the assessment of the situations in which you have to apply it. I don't see that we should change our practices at the moment but there is of course an openness of mind in the face of any justified criticism."

One area of trade policy in which he is studiously vague is how the EC should apply its concept of reciprocity in the field of services and other areas currently outside the remit of the Gatt. There is "an enormous debate" still going on inside the Community about this, and a first task is to clarify the EC position. But a basic principle is that the EC is not trying to follow the US telecommunications example of direct sectoral reciprocity. "That's not what we have in mind but, of course, a certain balance between mutual interests in a negotiated agreement is logical."

'I'm prepared to use every element I can to get the Community as multilateral as possible'

It is perhaps inevitable at this early stage in his new role that Mr Andriessen should feel most at home discussing agriculture. Despite his own expertise in this area, awareness of Commission proprieties prompts him to stress that he expects to co-operate closely in the international arena with Mr Ray MacSharry, the new Farm Commissioner.

But farm problems, he believes, are also set to play an increasing role in international trade politics. "This means we have to think in the Community about how we can retain the basic principles of our common agricultural policy in a rapidly changing global situation."

Looking back over his years as Farm Commissioner, he can point to achievements both in terms of establishing price reforms and of opening up the debate on direct income support for farmers which he says should be an element in overall reform, even if the main process is a market-oriented one, involving reduction in support prices.

One of his tasks is to persuade his foreign counterparts that this process does constitute a substantial contribution to world farm reform. But will he be able to make his mark within the Community on trade, so that his own, strongly held, views on multilateralism count?

That is partly a matter of determination and the support of colleagues. "My impression is that in the Community it is arguments (that count); it is political appreciation of the need for something which is on the table. I think it's a matter of perseverance, and perhaps a bit of personal credibility as well."

Is there life after the demise of the Bar?

A.H.HERMANN

The much-advertised ability of barristers to think on their feet has not been born out by last week's spectacle. In pleading that the Bar is sacrosanct and ought to be declared eternal, many barristers, including some leaders of the profession, used arguments ranging from exaggeration to obvious misrepresentation of the Green Papers on the Reform of the Legal Profession, published on January 25.

The shock at the audacity shown by the Government in tackling lawyers' restrictive practices, produced a stream of insinuations. Lord Mackay, the Lord Chancellor, was applying Scottish principles to the pragmatic English. He was innocent, said others; his hand was forced by Mrs Thatcher and her acolytes. She had spent too short a time at the Bar to know how it worked (this in print) and this was revenge for some personal pique dating from the time she was there (this added only by word of mouth).

"A betrayal of Conservative principles," shouted the Association of Conservative Lawyers. "Cynically populist proposals," pontificated Lord Rawlinson, concluding that these might be but a short step to – horror of horrors – a Minister of Justice, answerable to the Commons.

It would be uncharitable to ignore the distress which even the very rich and successful can suffer and which prompted this outburst. But such an irrational *cri de coeur* does not call for an answer. However, some more rational arguments against the reform proposals were also advanced and these need to be looked into.

First, there is the argument that the admission of qualified solicitors and other lesser breeds to advocacy would dilute its present excellence and deny the citizen the Rolls-Royce treatment which he can now expect. This makes too many false assumptions. There are great variations between the ability and experience of individual barristers, no less than between solicitors, patent agents, or doctors. I have listened to some brilliant barristers, but also to some very awkward ones with only a smattering of law. And once, to one who believed he was there for the other side, until Lord Denning gently put him right.

Alongside excellent counsels' opinions, one can find others which are a disaster for the client. There is nothing Rolls-Royce about the Bar's contribution to justice, except its cost. Certainly not its slow pace, sometimes due to barristers reading papers in court for the first time, and to the encouragement of "refreshers."

Nor do all outstanding barristers make excellent judges. In the criminal courts some cannot overcome the habit of identifying with one of the parties – the male or the police – and in the civil courts they often fail to see the wood for the trees. They are incorruptible, but this is not enough.

The Bar and its judges also have a historical responsibility for allowing suspects to be convicted on the basis of a "confession" recorded by the police, and for a method of construction which allows an insured to be made to bear the penalty for an unauthorised insurer.

Much has been said about the special relationship of trust between barristers and judges. But the club loyalty between them can be bad for the client, if it results in the judge being reluctant to point out the advocate's shortcomings or curtail his long speech-making.

Local solicitor-advocates in the provinces could gain the same trust and, in addition, serve the client better because of familiarity with the ways of the local court.

Another often-heard assertion is that the big law firms would recruit the best advocates, leaving only second-class barristers to serve the smaller firms and their clients. It is, however, unlikely that the prima donnas of the Bar would give up their extremely lucrative free-lancing; rich clients go to the big law firms anyhow; and the not-so-rich cannot afford to pay £8,000 for two days in a magistrates' court with much higher costs for international arbitration.

Moreover, it is a delusion to believe that solicitors always select the best counsel available for their client. Many have a semi-permanent relationship with particular chambers, leave it to the clerk to give the brief to whoever is free, and often find that the brief was passed at the last minute to someone else who did not have much time to read it.

Finally, there is the sledgehammer argument that the proposed reform would put advocates in the Government's pocket. The Bar sticks to this although it now admit that advocates would not be licensed by the Lord Chancellor or his advisory committee but certified by any recognised professional organisation, including the Bar. True, these professional bodies would have to satisfy a statutory minimum code of conduct but this does not have to be a bad thing at all. Why an advocate certified by the Law Society should be more exposed to "indirect pressure by the Government" than one certified by the Bar has not been explained.

Much is made of the threat to the "separation of powers and independence of the Bar and the judiciary." But when it comes to magistrates, silks and judges there is no separation of powers in the UK. They are not elected, but appointed – by the Lord Chancellor, who is himself both a judge and a member of the Cabinet.

If there are no better arguments than this, the case is very weak; if there are, but the leaders of the Bar are unable to see them, it is no stronger. It all boils down to this: if the barristers are as good as they say, and some are, they will have no difficulty in competing with other advocates when the public has direct access; and those that are not so good will have to improve or leave advocacy. It will be a much fairer pruning of the profession than that currently achieved by the refusal of tenancies in the overcrowded chambers monopolising the higher courts.